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JPRS-CAR-88-058  
23 SEPTEMBER 1988



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# ***JPRS Report***

# **China**

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# China

JPRS-CAR-88-058

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23 SEPTEMBER 1988

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## NATIONAL AFFAIRS, POLICY

### Report on National, Shanghai Plans for Housing Reform

40060409 Shanghai SHANGHAI JINGJI  
[SHANGHAI'S ECONOMY] in Chinese  
No 3, 30 May 88 p 3

[Article by Ni Tianzeng 0242 1131 1073, vice mayor of Shanghai Municipality: "Work Hard To Do a Good Job of Housing Reform in Shanghai"]

[Text] The State Council held the National Working Conference on Housing Reform from 15-18 January 1988 in Beijing. This was the first conference held by the State Council to make special plans for national housing reform. The conference heard and studied the important speech that was given by CPC General Secretary Zhao Ziyang at a meeting of the Central Financial and Economic Group, discussed the implementation plan for carrying out national housing reform by stages and in groups, studied and planned relevant 1988 housing reform tasks, and summarized and exchanged the experiences of housing reform pilot project cities. During the conference, the State Council held special meetings in the premier's office to hear reports on the conference, and leading comrades, such as Premier Li Peng and Vice Premier Yao Yilin, issued important directives on carrying out housing reform.

During the conference, leading comrades from cities such as Yantai introduced their experiences in carrying out housing reform. These cities' housing reform methods were of two general basic types, nominal changes and actual changes. Some combined nominal and actual changes, making both at the same time. In both nominal and actual changes, rents were first raised to levels that were based on five cost factors: depreciation charges, maintenance costs, management expenses, investment interest, and property taxes. At the same time, staff members and workers were issued housing bonds based on a fixed wage scale. The difference between the two types is that in nominal changes, the housing bonds issued to staff members and workers after rents were raised did not have financial backing, whereas in actual changes, they had financial backing and became negotiable securities in reality as well as in name. Carrying out nominal changes made the burdens on the state and enterprises lighter and was easier to start, but it was only a first step in rationalizing the economic relationship between individuals and the state and controlling unreasonable housing demands. Whereas carrying out actual changes was a much bigger step. It was the first step in realizing a good cycle of investment and return for housing funds and in rationalizing the economic relationships between the state and enterprises and between units that have property rights and those that do not.

In both methods, all the subsidies that were issued to staff members and workers took the form of housing bonds before they were rationalized with wages. This is

because using the method of issuing bonds is favorable to macroeconomic control. Housing bonds can only compensate for the increased rent, and surpluses are channeled into individual funds for buying and building housing, are deposited in banks, and cannot break into consumer goods markets. Moreover, issuing bonds cuts down on the use of circulating funds and will not increase the amount of currency in circulation or require that more currency be issued after rents are raised.

### I. Housing Reform Is Imperative and of Great Political and Economic Significance

Urban housing has become a central issue in the relationship between the masses and the government and also a focus of people's attention on the issues of party workstyle and social atmosphere. The great political and economic significance of housing reform can be seen mainly in the following areas.

1. Reform is favorable to realizing a good cycle of investment and return for housing funds. The state and enterprises now invest over 20 billion yuan a year in housing construction. Added to such items as maintenance costs, management expenses, and individual housing subsidies that are issued to staff members and workers, the total comes to approximately 30 billion yuan a year (Shanghai Municipality builds over 4 million square meters of housing a year for a investment of approximately 1.8 billion yuan which, added to such items as maintenance costs and management expenses, comes to more than 2 billion yuan a year). Moreover, very low rents are collected from the housing that is allotted to staff members and workers. The average monthly rent for usable floor area throughout China is only 13 fen per square meter and many city dwellers pay only 6 or 7 fen per square meter and even less in some units. Shanghai's average monthly rent is 20.7 fen per square meter of floor space. If rents were calculated according to housing costs, usable floor area would cost about 1.56 yuan per square meter and, if calculated according to commercial rates (adding in the three factors of profit taxes, insurance fees, and land use costs), usable floor area would cost more than 2 yuan per square meter. Current rents are far from being able to pay for even maintenance costs. Shanghai Municipality requires state housing subsidies of 70 to 80 million yuan a year. One-half of the housing throughout China is now in disrepair, increasingly dangerous, and of a short life-span. The more the state and enterprises invest in housing construction, the more maintenance costs and housing subsidies are required. Since the money that the state uses for housing construction is an investment with no return, there is no accumulation, the state's burden becomes heavier and heavier, and a vicious cycle is formed. Since the law of value is being completely violated, the real estate industry which should be very dynamic is gradually shrinking. Practice has proved that this cannot go on. Only through housing reform can a good cycle of investment and return for housing funds be gradually realized.

2. Reform can control unreasonable housing demands, change the present irrational method of housing allotment, overcome unhealthy tendencies related to the housing issue and, thus, improve the relationship between the party and the masses. Housing is now distributed by allotment and not sold and rented according to commodity economy principles. Thus, it gives some people the opportunity to use their public authority to seek private gain and to use their influence to get more and better housing. This not only intensifies the housing shortage, but also arouses strong public dissatisfaction. On one hand, people see three generations living in one small room and sleeping in bunk beds and, on the other, very small families occupying several rooms. China's party and government are paying a lot of attention to resolving the issue of the use of public authority to seek private gain in housing. In addition to reaffirming their stand, they have dealt with some people, but results have been very poor and the problem has grown in intensity. This is mainly because no scientific analysis has been made of the causes of this phenomenon, consideration has not been given to linking it to the housing system issue, and causes have been searched for and ideas evolved only from the angle of people's ideologies and workstyles. As a result, the issue has never been resolved and people have lost faith that it can. Only by reforming the existing housing system and building a new one can the unhealthy tendencies of the housing issue be resolved and the weeds that create a bad atmosphere be basically uprooted. After such cities as Yantai, Bengbu, and Shenyang carried out housing reform, the call went out to exchange big rooms for small ones, move out those who occupied too much housing, and control the construction of large-area, high-standard housing. Some people have used their authority of office to occupy several rooms, some openly and others secretly. This was unable to be resolved for many years but was resolved quickly once the new system was put into effect. This was because the previous monthly rent of those who occupied too much housing was equal to the price of a package of incense, but now is some tens of yuan. This truly reflected the principle that those who have more and better housing must pay more, and they were unable to. After an organization in a certain city raised rents, 35 staff members and workers vacated 19 rooms. During the reforms, a system evolved to control unreasonable housing demands, which made the masses of people very happy. They have shown their deep hatred for the unhealthy tendencies in housing.

3. Reform is favorable to restructuring China's consumption and rationalizing the industrial structure. Since the major commodity of housing has not yet been put on the consumer market, China's consumption structure is very irrational, making our industrial structure also irrational. The present price ratios between rental and purchase of urban housing are very irrational. Residents' housing expenses are only 1-2 percent of family income in China, while being about 25 percent in such countries as the U.S., France, Italy, and Australia. Since rents are too low in China, renting is better than buying,

and the concept of "public housing" is deep-rooted, people invest their money in consumer goods other than housing and in expensive consumer goods in particular. This greatly divorces their consumer desires from China's national conditions. Statistics show that China's present dissemination rate of expensive household electrical appliances is equal to that of certain countries when they had a per capita income of \$1,000 a year. Housing reform can spur individuals to buy their own housing and attract many consumer funds toward housing. Thus, it can restructure industry and enable China's new and developing industries—building construction and real estate—to grow accordingly.

4. Reform can change some of people's incorrect ideas that have evolved over a long period of time. People have long considered housing a non-commodity, thinking that it was a state-owned fixed asset and could not become private property. Moreover, they regarded the housing system of low rents, high subsidies, and allotment in kind as an expression of the superiority of socialism. Thus, supply system and welfare ideas evolved on the housing issue. Moreover, since jobs were regarded as major conditions for housing allotments, the idea of graded housing allotments also evolved. These outmoded ideas conflict with China's present development of a planned commodity economy. Thus, housing reform must be able to spur changes in people's thinking. Over 30 years of practice has proved that the state is unable to undertake the whole job of providing urban housing for hundreds of millions of people. Even considering future economic developments, this would still be impossible. Only by taking the path of housing commercialization, coordinating the efforts of the state, enterprises, and individuals, fully developing the initiative of all sides, and invigorating the real estate industry can China's urban housing problems be basically solved.

## **II. The Reform Goal, Tasks for the Next Few Years, and Principles That Should Be Followed**

The "National Implementation Plan for Carrying Out Urban Housing Reform by Stages and in Groups" (hereafter abbreviated as the "implementation plan") that was formulated by the State Council's Leading Group on Housing Reform clearly points out that the goal of China's urban housing reform is to commercialize housing in line with the needs of our socialist planned commodity economy. That is, beginning with reform of the system of low-rent public housing, the present allotment in kind will gradually be changed to cash allotments. Through commodity exchange, residents will acquire the rights to own or use housing, enabling the major commodity of housing to be put on the consumer goods market and realizing a good cycle of investment and return for housing funds. Thus, a new route will be taken that is favorable to solving the urban housing problem and can spur the growth of the real estate, building construction, and building materials industries. In order to realize this goal, housing reform must include at least the following four planks: 1. The system of fund

distribution must be changed, housing consumer funds must gradually flow into regular channels, and many hidden housing allowances that are now actually used to build and repair housing for staff members and workers must be changed into open allowances and gradually channeled into staff member and worker wages. 2. The present planned management system that regards housing as a fixed asset investment must be reformed and a guided planned management system that regards housing as a commodity should be set up. 3. Through coordinated reform in areas, such as public finance, taxes, wages, banking, prices, and real estate management, housing funds should be established on the basis of rationalizing the present various housing fund channels, and a smooth day-to-day operation mechanism that can realize a good housing fund cycle should gradually be evolved. 4. Industry should be restructured, a real estate market should be opened, real estate banking and the real estate industry should be developed, and real estate development, construction, management, and service (including housing) should be brought into line with the systemic circulation of the entire socialist planned commodity economy.

Based on the reform goal and planks, the major tasks for the next 3-5 years are as follows: to readjust public housing rents, calculate rents according to the five cost factors of depreciation charges, maintenance costs, management expenses, investment interest, and real estate taxes; control unreasonable housing demands, encourage individual staff members and workers to buy housing, take steps in areas such as policy, legislation, and public opinion to guide and regulate residents' consumption, make consumption more rational, and lay a foundation for the commercialization of housing. Housing reform is a major reform that involves a very wide range of issues and very strong policies. In order to improve macroeconomic control and guidance, there is a unified policy throughout China. Based on housing reform demands throughout China, the principles to be followed are as follows:

1. In the first phase of housing reform beginning in 1988 and lasting for 3-5 years, the present low rents in public housing will be raised in steps to the point where they are calculated according to the five factors of depreciation charges, maintenance costs, management expenses, investment interest, and real estate taxes, i.e., to a level based on cost. Determining the standards for public housing rents will be a key link in housing reform. Setting rents either too high or too low would detract from the significance of reform. They must be set so that they are favorable to speeding up the purchase of housing, in line with local conditions, and based on economic tolerance.

2. Along with raising public housing rents, a wage-raise coefficient will be set based on need equal to the total rent increases, and housing bonds will be issued. The bond-issue coefficient cannot be set arbitrarily, but must be set fairly according to the amounts of the issued bonds

and raised rents. Based on the need for fairness, it will be normal for increased expenses and precipitation to constitute roughly 50 percent each. If people raise the coefficient, the amount of bonds issued will increase, the precipitation will be larger, a deficit will appear in public finances, and the state and enterprises will be unable to tolerate it. The state has stipulated that the bonds be no higher than 25 percent of the original wage. When rationalizing them with wages in the future, they must also be balanced, being gradually raised when they are too low and gradually cancelled when they are too high. In summary, long-range rights and interests must be considered when setting the bond-issue coefficient. Moreover, attention must be paid to keeping housing subsidies from becoming a third form of wage distribution of successive wage and bonus increases.

3. This phase of the reform is limited to public housing (including that which is managed directly by the state and that which is managed by organizations themselves). The present view is that the conditions do not exist to resolve overnight the issue of subsidizing staff members and workers who live in private housing, but this should not be put off for too long. The "implementation plan" has clearly stipulated that including staff members and workers who live in private housing and villages in housing reform is one of the major tasks of the next step of reform.

4. Housing bonds may be used only for paying increased rents and not for paying old rents. Surpluses must be channeled into individual funds to buy and build housing and may not be thrown into other consumer goods markets. Municipal governments will assign special banks to handle such tasks as granting and depositing housing bonds (or the certification methods to be used).

5. The principle must be upheld that those who occupy more housing must pay more and those who occupy less will benefit, and rent reductions, exemptions, and subsidies must be strictly controlled. In order to commercialize housing, it will be necessary to act according to the principles of commodity exchange. People who have high incomes from wages and have received many housing bonds cannot again follow certain past graded methods while reform is going on. Rent reductions, exemptions, and subsidies are only for compensating financial difficulties, are only an interim measure, and must not be institutionalized or drawn out. Funds for rent reductions, exemptions, and subsidies must be no more than 5 percent of the amount of bonds issued and the future trend will be toward gradually decreasing them until they are abolished.

6. The job of housing reform fund changeover must be done well. Housing reform funds will come mainly from previously amassed housing construction and rent subsidy funds as well as collected housing construction and real estate taxes. Deficiencies will be made up appropriately from welfare and private funds. A few further deficiencies can be included in costs in a controlled way

and must be listed in financial budgets by administrative units and institutions. Funds that are recovered by selling new and old housing should be included in housing reform funds.

7. All public finance, tax, wage, banking, price, and real estate management measures must be perfected in coordination with housing reform needs.

### III. A Tentative Plan for Housing Reform in Shanghai Municipality

Shanghai Municipality began to study housing reform in the early 1980's. At Beidaihe in 1984, Comrade Zhao Ziyang pointed out the "need for Shanghai to take the lead in rent reform." After this, the municipal government organized the relevant municipal committees, offices, and bureaus to make a comprehensive investigation of Shanghai's rent issue. Repeated discussions were organized and four successive plans were proposed. The plan that was studied in 1984 was to "change hidden subsidies into open ones and raise rents appropriately;" the plan that was proposed after studies in 1985 was to "implement housing control standards and raise rents where standards were exceeded;" in 1986, repeated studies were again carried out on the issue of Shanghai's implementation of "raising rents and increasing capital," and the third housing reform plan was proposed in March 1987. In early 1988, in line with the spirit of the State Council's directive on speeding up the pace of housing reform, further studies were conducted based on the third plan, and a fourth plan evolved. The third and fourth plans have become the precedents and basis on which we are studying housing reform plans for Shanghai Municipality.

Shanghai's present housing reform must be done conscientiously according to the spirit of the National Working Conference on Housing Reform. Based on the principles proposed in the national "implementation plan," under the leadership of unified national policies, and according to the reform goal, planks, policies, and steps proposed by the State Council's Leading Group on Housing Reform, Shanghai's actual conditions must be considered and an implementation plan must be proposed. A pilot project will be launched in 1988. The present tentative plan is as follows:

1. Shanghai's housing reform will adopt a three-step method, i.e., it will use a new system for new housing, raise rents for old housing, and issue bonds (subsidies).

2. The reform tasks for 1988 will be carried out roughly as follows.

In 1988, Shanghai will strive to carry out a new system for new housing, the first step in raising rents for old housing, and the first step in issuing bonds.

Based on plans, work teams have been organized, work plans have been formulated, and work progress has been determined. On the basis of investigations and surveys, approximately the next 6 months will be used to formulate a plan. After the plan is more or less formulated, simulated operations will be organized. Moreover, the first draft of the reform plan will be given to the masses for discussion, to improve its clarity, as one of the ways for the masses to participate in government and political affairs, and to allow its contradictions and issues to be fully revealed. Then the plan will be steadily revised and each particular policy and coordination measure will be perfected. Efforts will be made to officially put the plan into effect in 1988 after it is reported out and ratified by the municipal party committee and municipal government.

3. In order to fulfil the 1988 reform tasks, the following issues must be resolved well:

A. It will be necessary to mobilize ideas thoroughly, carry out systematic and large-scale publicity on housing reform, constantly improve the understanding of vast numbers of cadres and the masses about the importance, necessity, and rationality of reform, raise the psychological tolerance for reform, support reform, and conscientiously participate in reform. Organizations at all levels must clearly determine whether the masses truly support reform, investigate, study and deal carefully with various ideological issues among the masses, and thoroughly resolve actual issues.

B. The masses must be fully aroused to discuss and debate the plan. Public opinion polls must be taken, views must be heard through various activities, such as forums, symposiums, and dialogues, and certain unnecessary misgivings among the masses about reform must be disposed of.

C. All departments must be mobilized to work together to accomplish this reform. Housing reform involves a wide range of issues and complex conditions. Thus, under the unified leadership of the municipal party committee, the municipal government, and the municipal leading group on housing reform, all departments must be closely coordinated, share out the work and cooperate with one another, and jointly shoulder this reform task. Municipal departments such as the planning commission, economic commission, construction commission, finance and commerce office, finance bureau, and banks must investigate and study which funds can be used for Shanghai housing reform, clarify channels, formulate policies, draw up itemized accounts, join together to raise money and establish housing funds for Shanghai, and conscientiously study issues, such as how to dredge, transform, and rationalize existing funds. Pricing departments and housing management departments must study housing rental prices and prices of all types of new and old commercial housing that is offered for sale. Labor and personnel departments must study

the limits and ways of increasing funds; housing management departments must study ways to sell new and old commercial housing. Banks must study issues, such as fund recovery, settling of accounts, credit, management, and distribution. The municipal housing reform office must coordinate overall balance, collect data, and implement measures only after they are submitted for approval to the municipal party committee, the municipal government, and the municipal leading group for housing reform.

D. Organizational leadership must be improved. All departments, commissions, offices, districts, counties, and bureaus must improve their ideological and organizational leadership of housing reform. They must promptly familiarize themselves with and analyze the ideas of cadres and the masses about reform, perform their tasks well, and resolve actual issues. All departments, districts, and counties must organize groups level by level and assign people to be specially responsible for them. All major leaders of every department and unit must take a personal interest and acquire direct experience in each phase, such as surveying, drafting of plans, simulated operations, and putting into effect.

Housing reform is a matter of benefit to both the nation and the people. We have recently received many letters from people expressing support for housing reform, some of which proposed positive suggestions and called for speeding up the pace of housing reform. Although housing reform will be very difficult, its orientation is clear and the road is open. As long as we persist in acting in the spirit of the directives of the CPC Central Committee, the State Council, and the National Housing Reform Conference, integrate them with Shanghai's actual conditions, carry them out boldly, and work carefully, Shanghai's housing reform will certainly be able to forge ahead.

12267

**Enterprise Groups Develop, Expand**  
40060458 Beijing JINGJI CANKAO [ECONOMIC  
INFORMATION] in Chinese 11 Jun 88 p 1

[Article by Yin Xianhua 1438 0341 5478 and Yu Cuiyin 0151 4733 7299: "Our Nation's Enterprise Groups Are Developing and Expanding—Those That Have Comprehensive Functions, That Do Complete Projects, That Exploit Technology, That Radiate Out Commodities Are Appearing"]

[Text] China already has 60 or more relatively large enterprise groups. These enterprise groups are like a unified fleet of ships, navigating the ocean of the commodity economy.

According to the survey statistics of the State Commission for Restructuring the Economic System, the 35 relatively large enterprise groups among these have a yearly output value of 19.7 billion yuan. The yearly taxes

that they turned over and the yearly amount of foreign exchange earned through exports are 2.67 billion yuan and 0.38 billion dollars respectively. These enterprise groups are mostly spread out among the machinery, electrical, light industry, textile, and other industries. Some have already developed to a respectable economic scale. Some already play the part of the front line soldiers in their own industries.

In the increasingly more intense competition in the ocean of the commodity economy, it is very difficult for an enterprise by itself to steer a small sampan across the ocean. For many enterprises to unify and form a united fleet of ships—an enterprise group, to implement the practice of those with dominant positions mutually helping each other, creating new productive forces, producing the entire effect of one plus one equalling more than two; this is the inevitable trend of a particular level of development in the world of the commodity market and the socialization of mass production.

Our nation's enterprise groups are progressively developing on the basis of adopting economic unification, and according to the different characteristics in economic technological integration, which for the most part consist of four types:

—The comprehensive functions type. With large-type enterprises and scientific research designing institutes as its main body, it forms a unified commerce, trade, technology service, etc., work unit. It takes technological development, production engineering, product sales, information services, opening of markets, and other various kinds of functions, and fuses them into one entity. It thereby produces the strong advantages of quick information feedback, operational flexibility, and market adaptability.

—The coordinated project type. With a certain number of large-type enterprises and their interrelated large-type scientific research and designing institutes as its main body, it is created based on forming a complete series of engineering projects. It carries out, from the equipment to all the items of design, manufacture, supplying, installing and debugging, down to personnel training and after sale servicing, the complete contract.

—The exploiting of technology type. With large-type production enterprises as its main body, it unites with scientific research institutes; or else with scientific research institutes as its main body, it unites with production enterprises. It is established in industries that have a high concentration of technology, and is able to rapidly turn the achievements of scientific research into productive forces.

—The radiating out production type. With large-type enterprises as its support, famous and excellent products as its introduction, it organizes the coordination of specialization, and creates a whole network of

multiple management levels. It is like the groups of the Number One Automobile Plant and the Number Two Automobile Plant—they combine a few hundred enterprises all over the country and they are now achieving the benefits of scale in having large batches, starting at a high level, and producing in a series.

Due to the restrictions imposed by the currently operating economic management system and the level of development of the productive forces, the development of our nation's enterprise groups is still in the preliminary stages. At the State Commission for Restructuring the Economic System's most recently convened forum on enterprise groups, the members of the business world and the theoreticians both commonly feel that, in the present world, enterprise management strategy is tending towards internationalization, a new technological revolution is rapidly developing, market competition is intensifying daily, and the development of the commodity economy of our nation is taking place in a greatly different international environment than the development of the commodity economy of capitalism of a couple hundred years before. Our nation's enterprises are faced with a severe challenge. To energetically develop enterprise groups must be regarded as an important essential for deepening enterprise reform. It must become an important organizational form for smashing the system of carving things up into departments and branches and for stopping the sealing off of geographic regions, for improving the industrial and enterprise structure, and for raising the level of industry in our country as well as for raising the economic benefits.

13418/9274

**Examples of New Trends in Enterprise Groups**  
40060458b Beijing JINGJI CANKAO [ECONOMIC  
INFORMATION] in Chinese 11 Jun 88 p 1

[Article by Yin Xianhua 1438 0341 5478 and Yu Cuiyin 0151 4733 7299: "New Trends Emerge in the Development of Our Nation's Enterprise Groups"]

[Text] Breaking the pattern of the "three unchangeables," developing a close coalition between different administrations; enterprises mutually make investments, give out shares, transfer ownership and annex property to each other; diversifying group functions; closely integrating scientific research with production; some groups start unified export-oriented development

New trends have emerged in the self-development of some of the nation's currently existing enterprise groups. Members of our nation's business community and theoreticians commonly believe that these trends reveal the direction of and the broad prospects for the development of our nation's enterprise groups.

These new development trends can mainly be seen in the following:

—The close coalition between administrative levels of different enterprises had started to break down and unite the boundaries of ownership of the various parties, the subordinate administrative relationships, and the channels for turning over revenues to public finance, these "three unchangeable" structures. Presently, among the ways of breaking down "the three unchangeables" is, first, to have enterprises contract (or hire) other enterprises. This enables those enterprises that are contracted to break away from their original subordinate relationship, because the contracting enterprise, on the other hand, will centralize management power and implement a unified plan and unified management. This kind of method is simple and easy to do, and is worthy of energetic promotion. The second way is to have enterprises mutually make investments and give out shares to each other, which will lead to a change in the ownership relationships of enterprises, and quicken the process of integration of the enterprise group's property. This kind of method can resolve the problems of public finance benefit due to the substantial friction caused by the breaking down of "the three unchangeables." It can easily be accepted by all parties, and can urge on the effective method of enterprise groups carrying out optimal associations, and holds good prospects for development. But at present there is a large degree of difficulty in carrying out this method. This is because the organizational setup, the moving mechanisms, the asset appraisal, the stock mechanisms, the making over of share certificates, the distribution of profits, the protection of rights and interests, etc., of the stock offering enterprise groups concerned, need to have a process of exploration. The third way is to have property rights transferred with compensation or have enterprises annex property. This is to achieve the integration of property and management, and completely overcome the principle of "the three unchangeables." According to incomplete statistics on 17 provinces and cities, there are currently already more than 300 enterprises practicing the transfer of property rights. The risks are not very great in implementing this kind of method, so it is equally worthy of energetic promotion.

—The establishment of financial affairs corporations by enterprise groups has opened up the channels for the internal blending of group funds. Some of the enterprise groups have already agreed to the establishment of financial affairs corporations, since the regulator of the internal blending of group funds is also a bridge between the united enterprise and the banks or other financial organizations. Through extensive fund raising inside and outside of the group, the member enterprises of the group have been granted special loans, to support the enterprise in carrying out technological reform and to develop new products and technology, to play an important role.



- The continuous development of enterprise groups functions even more points to a trend towards diversification. For example, the Changzhou Golden Lion Group, besides possessing more than 150 production enterprises, also united up with more than 10 scientific research institutes, material supplying departments, 72 commercial marketing units, as well as depots, harbors, wharfs, and other work units; hooking up all the links from scientific research and production to sales and transportation.
- The close integration of scientific research and production has shown off the talent of a lot of the groups which have scientific research and technical institutes as their main body. Among the enterprise groups, these ones have become the fresh troops full of hope. For example, the Beijing Stone Group, which mainly develops the technology of micro-electronics and the technology of handling information in the Chinese language, last year successfully ranked nationally as number two in that industry in amount of sales.
- Some enterprise groups have started developing towards an export orientation, trying hard to head into the international market. Some of the enterprise groups that are developing towards outside markets are already exploring cooperation and alliances between groups. For example, the Shenzhen Saige Group, the Nanjing Zhongshan Group, and the Beijing Keli Group, already just recently signed a letter of intent for cooperation, uniting together to develop export-oriented electronics products.

13417/9274

### Price Reform Moves 'Toward New System'

40060460 Beijing SHIJIE JINGJI DAOBAO in Chinese  
27 Jun 88 p 6

[Article by reporter Zhang Weiguo 1728 0251 0948:  
"Price Reform—Moving Toward a New System"]

[Text] To celebrate the eighth anniversary of the founding of this publication, the paper's Beijing office recently convened a series of informal discussions for young and middle-aged theoretical workers. Discussion attendees included Li Su [2621 5126], Hong Xiaoyuan [3163 1420 3293], Wu Jiaxiang [0702 4471 4382], Sun Laixiang [1327 0171 4382], Zhang Xinhua [1728 2450 5478], Cai Quan [5591 3123], Gao Tiesheng [7559 6993 3932], Zhang Wei [1728 0251], Bai Huimin [4101 1979 2404], Wang Zhiyuan [3769 5267 0337], Chen Yaogang [7115 1202 6921], Yu Meisun [0205 2734 5549], Zhao Lun [6392 0243], Chen Xiaoping [7115 1420 1627], Li Shuguang [2621 2562 0342], and Zhang Shuyi [1728 2885 5030]. Wide-ranging discussions were held on such issues as the current price reform and the enterprise contracting system.

The first topic to be discussed was price reform. The attendees felt that there are primarily three arguments for price reform: 1.) Double-track prices exist in name only. While included in the state plan, the goods and materials represented by these prices in actuality are not themselves encompassed within the plan. There are an extraordinary number of intermediate links, and even if applied directly without these links, these prices would offer many advantages. They typically are associated with apportioned quantities, wholesale lots, and planned quotas, all of which become marketable goods. They become symbolic, and represent the difference between free market prices and planned prices. 2) The double-track system is a catalyst for making things worse, and fosters unhealthy tendencies. Under the double-track system, the microeconomic units offer and accept bribes, and this is totally in accord with the attendant principle of economic circulation—low costs and large returns, and the mechanism becomes inherent. 3) Older generation leaders are still living and in good health, and they can control the situation in order to withstand the risks which accompany price reform.

We must be very clear about what true price reform is. Price reform does not mean adjusting prices; reform means clarifying underlying property relations, and having enterprises truly assume responsibility.

Strictly speaking, rather than adjusting prices, price reform means we must restructure the circulation mechanism, and something even deeper, which is the enterprise ownership structure presently in place. The pricing system is not something the leaders foist on the market; rather it is something which commodity producers who assume sole responsibility for profits and losses create in the market exchange process.

The price issue must be viewed from two angles. One is the continuing rise in prices in recent years, and the other is that the price structure, as a result of multiple price adjustments, is getting worse rather than better. Overall inflation continues unabated and this, coupled with a progressively worsening price structure, is the situation with which we are currently confronted, and it is an exceptional situation. The price problem and its root causes alone are difficult to expound clearly. Since economic circulation at present is not occurring within a single system, we should view the issue in terms of two systems within the larger structure. In the old system, there was absolutely no way for inflation to occur, prices were held in check, and a rational price structure was essentially impossible. A nation with a true market economy experiences inflation to a greater or lesser extent, but its price structure will always develop in a rational direction as a result of market guidance, and supply and demand adjustment. Our problem is that we are far removed from two goals; namely, stable prices and a rational price structure. The essential reason is that the functions of the market and the government have erroneously been reversed. Of course the price structure should be regulated by the market, with overall commodity price levels controlled by the government. What we find now is that the government is regulating the former to a stifling degree, and the prices of a large segment of commodities are being controlled by the government. The stifling regulation of the price structure led to

convoluted prices and a convoluted market mechanism, which brought about our currency and financial shortages. The result has been an inevitable rise in overall commodity price levels. The major reason for the financial deficits created by relaxing and eliminating controls, and the integral connection between the banks and financial sectors, was this inversion of functions, and therein lies the crux of the problem.

Where is the substantive difficulty with price reform? Some of the discussion attendees felt the biggest problem is that a direct relationship developed between the people and the government in economic circulation. After this happened, it became impossible to readjust benefits. For the people who have lived with 30-plus years of public ownership, the benefits structure is exceptionally rigid; anyone can afford a 1 cent adjustment in the price of firewood, yet all rush to purchase it. Pertinent ministries and commissions under the State Council have spent a lot of time discussing the price of toilet paper, and someone asked whether the People's Government has a need to manage the people's eating and toilet activities.

The recent Central Government session proposed a plan to make price reform a priority item over the next 5 years, which is significant in that it holds great promise in terms of systemic change. Ten years of reform have shown that each round of enterprise reform has solved real problems related to actual economic circulation, and this has resulted in improved circulation for our present double-track economic system. Within that system, contracting has become the predominant pattern. But there is only one way to solve existing difficulties and reverse the functions of the market and government, and that is to institute systemic reform. Enterprise reform is the way to solve immediate problems, while price reform must be pursued to achieve deep and lasting reform. Joint price, tax and finance initiatives in 1986 ultimately resulted in a modification of bargaining parameters, but the original intent was to effect a readjustment in basic economic relations, produce economic relationships conducive to a commodity economy, and then perfect them. In this sense, joint price-tax-finance action is quite significant. Contracting was implemented in 1987 to energize and enliven enterprises, and stimulate them to action. In 1988, price reform has been reinstituted, and in the context of the double-track system, this represents a second attempt at systemic change. Consequently, we should devote major efforts to expediting price reform.

Price reform primarily involves transforming the mechanism for determining prices; it is not price adjustment for the most part. Price adjustment is a means to ultimately decontrol prices. Transforming the pricing mechanism involves a change from having the government set prices to having prices determined by the market. To have market-set prices, there first needs to be a market, and this entails ownership reform and the introduction of a new overall system. Only when the market has the ability to determine prices can the

government relinquish its control. The government at present is managing a large number of things which it has no business managing, and the reason is not that it relishes this task, but because the market is incapable of managing them. The market does not have the ability to deploy resources, so the government is left with no choice but to step in. Consequently, price reform must be viewed as a transformation of the pricing mechanism. The market must be capable of setting prices, and thereby replace the government. This also is the position of Li Yining [0632 0110 1337]—only through comprehensive and coordinated reform can commodity prices be transformed.

The "358" program and the 10 households program can be characterized as "convergent." The program of Wu Jinglian [0702 2417 8834], who always stressed price reform, repeatedly emphasized the primary importance of enlivening large and mid-sized enterprises, and the need for loose controls, and coordinated, comprehensive reform. Although Li Yining again and again stressed that ownership reform was the most crucial aspect, he felt that prices also needed to be readjusted. The things these two people implied are the same. Therefore, upon reviewing the programs after setting aside the labels, many similarities are apparent; both require comprehensive, coordinated reform. To show that China's reforms have arrived at a special stage, not only must we break with the old, we must establish something new as well. We must allow the new system to exercise an overriding function, and replace the old system.

In summary, the present price reform can play an expediting role in China's reform process, and price reform represents for us a step toward a new overall system. Price reform must settle in contracting even more than at present; we must begin with enterprise contracting, apply the logic of contracting to finances, foreign trade and local activities, and institute a contracting system. This approach makes a lot of sense with respect to the ultimate purpose of instituting reform—changing tracks.

It is reported that a State Pricing Commission has been formally established of late, and has already held two meetings. Chairman Yao Yilin [1202 0181 2651], vice chairman Bai Meiqing [4101 5019 3237], and leading officials of the various State Council coordinated departments attended the meetings. People from the State Pricing Bureau also attended. Yao Yilin instructed this body that the first thing it must do is establish a commodity price reform program. This program is not to involve commodity prices alone, but must be one which integrates wages and prices. It must be a comprehensive program in which various reforms are synthesized and considered. The State Pricing Bureau first proposed a commodity price reform program, after which various representatives of the Ministry of Labor and Personnel, State Planning Commission, and Ministry of Finance presented their views on the matter.

## PROVINCIAL

**Changing Management Style in Liaoning**  
40060456 Shenyang LIAONING JINGJI BAO  
[LIAONING ECONOMIC REPORT] in Chinese  
23 Jun 88 p 1

[Article by Li Zhendong 2621 2182 2639, Vice Chairman of the Liaoning Province Planned Economy Commission: "Deepen Reforms, Switch Functions, So As To Develop the Planned Commodity Economy"]

[Text] Since the 3rd Plenum of the 11th Party Central Committee and particularly, since the 3rd Plenum of the 12th Party Central Committee adopted the "Resolution of the Chinese Communist Party Central Committee on Reform of the Economic System," planned system reform here in Liaoning Province has moved forward with fairly great strides and has gotten clear results. However, present work on the plan still falls very short based on the requirements of the planned commodity economy, development of the social productive forces and the reform and development of new circumstances. Traditional plan concepts have not been thoroughly overcome, thinking has not been sufficiently liberated, certain out-dated management styles and work methods have still not been changed, many things are approached from a microeconomic aspect, routine work is busy setting targets, commenting on projects, and distributing money and commodities, and there is insufficient research being done on such important macroeconomic problems as total amounts in society and structural contradictions. These are all primary manifestations of the insufficiency of the present work. The focal points of management are still economic activities by ownership of the whole people units and command plans; we lack effective policy guidance for guiding plans and the market's regulative role. Organizational set-ups and functions are still not suitable and relations between all levels and in all directions are still not completely well-ordered, especially the area of comprehensive movement toward coordination of economic levers still retains a level where things are only considered as they stand and full play has not been given to the comprehensive role of the planning departments. Thus, switching around functions well should be an important mission of planning departments at all levels as we deepen planned system reforms. The focal points for making the switches should be undertaken from the five areas listed below:

### **1. Switch from an emphasis on microcontrol to an emphasis on macrocontrol.**

Departments functioning as managers of the national economic plan should be able to give advice on macroeconomic decisionmaking to government at all levels and they must stress their work on the important issues in macroeconomic studies. First, study strategies for development of the regional economy, science and technology, and the society; develop the strategic targets, focal points, measures and steps. Second, strengthen the

overall balance of the national economy, establish an equilibrium in and between finance, credit, commodities and foreign exchange, and make overall social supply and demand fit each other. Third, properly handle the relations between matters of great proportion, do a good job on the overall composition of the productive forces, formulate a clear industrial policy, make reasonable adjustments to the economic structures, and achieve good deployment of the key elements of production. Fourth, do a good job at economic forecasting and consultative service work. Fifth, study and formulate policy and economic measures for macroeconomic adjustment and control, as well as their coordination, execution, checks and supervision. Sixth, study and formulate comprehensive economic laws and regulations. Only by successfully tackling these important matters related to the long term situation of the national economy can large errors be avoided and prevented. In order to strengthen and improve macrocontrol, while making clear distinctions between matters and the authority over them, we must further clarify the limits of planning and management authority for planning departments and enterprises of all levels as well as perfect planning policies and adjustment and control systems for all grades and levels. All matters which can be handled by lower levels and enterprises should be passed on to the lower levels and enterprises to handle. Furthermore, all matters which can be coordinated and resolved within business management functions and by individual departments should be passed on to the individual specialized departments. Pass on some of the guidance functions in macroeconomic activity to departments concerned or business associations; entrust construction and investment corporations which have been made into enterprises with the administration of managerial project investments. Allocation of commodities should be the responsibility of commodity departments, with planning departments retaining the authority to balance plans. In summation, planning departments at all levels should avoid as much as possible duplication or overlapping of functions with specialized departments.

### **2. Switch from stressing development of the domestic-oriented economy to stressing development of the export-oriented economy.**

In order to implement the developmental strategy of the coastal region, planning departments at all levels must treat development of the export-oriented economy as the focal point of work, must tackle it earnestly, and must speed up the progress of modernization of the national economy. First, we must closely integrate our regional economic development with the changes in the world economic structures, treat development of the exported-oriented economy as an important part of the national economic program, and we must actively organize, implement and do a good job on coordination and service work. Second, we must strengthen the auxiliary

facilities for energy resources, particularly in the electricity, transportation and communications infrastructures; we must improve the investment environment to ensure the requirements of export-oriented economic development. Third, we must speed up construction of export bases and the technological transformation of export enterprises, launch new export products, heighten product quality and grades, improve export product mix, increase the competitiveness of our products, and we must capture or expand international markets. Fourth, we must continue to research, formulate and implement policies pertaining to the development of the export-oriented economy, and mobilize the enthusiasm for enlarging the amounts of exchange earned from exports in all areas. Fifth, we must do a good job at handling the relations between our domestic market and our markets abroad, making the two help each other move forward and speeding up the economic development of our region.

### **3. Switch from emphasis on direct management to emphasis on indirect management.**

As economic systems reforms are deepened and enterprises gradually become relatively independent commodity producers and managers, the planning and management that the planning departments of various levels do with regard to enterprises must gradually switch toward indirect management where "the state regulates the market and the market guides enterprises." First, we must continue to reduce the scope of command planning. Command plans which are transferred by the national planning commission and the various departments to the lower levels should be actively reported up to the higher levels and we should strive to gradually reduce their numbers. Local command plan missions which add product varieties and increase quantities should, according to conditions, be cut down regularly year after year. Second, perfect the markets for key elements of production and make a well-ordered price system. The primary responsibility of planning departments is to control the balance of overall amounts in society and, on the basis of demand, actively organize resources and put them on the market. Aside from command plan missions, the funds, energy resources and raw materials that enterprises need for production should all be solved through the market. Third, promote development of horizontal enterprise integration and adopt such methods as production-demand links and contract orders for goods so as to build up stable cooperative relations. Fourth, speed up the construction of information networks and do a good job at exchanging information and forecasting changes in market demand so as to reduce blindness in enterprise's production. Fifth, improve the management of command plans, give expression as much as possible to the principles of exchange of equal values, and adopt some favorable policies so as to enable enterprises which have assumed command plan missions to obtain reasonable economic results.

### **4. Switch from an emphasis on administrative measures to an emphasis on economic measures.**

Development of a commodity economy and planning work must be built on the foundations of the law of value and exchange of equal value. With an emphasis on economic measures, we must give full play to the regulative role of economic levers and mix our use of legal measures and the necessary administrative measures. One problem that presently is in great need of resolution is that we need to synthesize our use of the various economic levers and give full play to the functions of joining of forces. Secondly, we need to do a good job at making adjustments and controls in advance. This requires that from now on departments at all levels treat economic levers as important means to adjust economic structures, implement plans for the development of the national economy and society, and develop the socialist commodity economy. In the course of working out plans, planning departments must clearly raise important issues necessary to carry out regulation of the economy and should research and formulate specific policy measures together with the Finance Department, the banks, the Price Bureau and other departments concerned. Furthermore, make the measures known to the lower levels together with the yearly plan as far as possible. In order to suit the needs of this work item, planning departments at all levels should setup special divisions responsible for the coordination of the comprehensive movement of economic levers, enrich their capabilities, and develop and strengthen their work.

### **5. Switch from emphasis on target planning toward emphasis on policy planning.**

Under the conditions of continual reduction of command plans and continual enlargement of guidance plans and the scope of the regulative role of the market, we should rely on the development of planned channels where policy guides the production and management activities of the enterprises. Even the quantity targets that must be put forth should also accord with policy demands. Thus, while formulating plans, not only must we determine the targets to be completed, but more importantly, we must determine the policy that will guarantee the implementation of the targets. We must properly handle the relations between economic interests in the various areas. Currently, study on the following policies urgently needs to be done. First, industrial policy—make further adjustments in industrial structures. Second, allocation policy—properly deal with the relations between central and local, the state, the collective and the individual. Third, technology policy—fully arouse the enthusiasm of scientists and technicians, make great use of international advanced technology, and raise the technology levels of the various departments related to the national economy. Fourth, price policy—progressively resolve the phenomenon of price deviating from value and regulate supply and demand relations. These policies cannot be completed all at once,

however, they should be treated as a work item for planning departments to be constantly mindful of, to continually study, to adjust and to improve upon.

In order to realize the changes in the five areas mentioned above, we must emphasize resolution of the three issues below:

First, we must further update our thoughts and ideas. Since the 3rd Plenum of the 11th Party Central Committee, and following the deepening of reforms and the bounding development of the economy, the new ideas about the planned commodity economy have gradually grown stronger in the minds of planning cadres of the various levels. However, some outmoded thoughts and ideas still remain such as traditional ideas about the product economy, opposing ideas about planning and the market, modes of thinking along the lines of "going by the book," and ideas of "control, restrict and repress" in upper levels and "wait, rely on and stand in need" in the lower levels. These all influence the switching of functions. We must hold fast to the basic party line on the elementary stage of socialism and deepen our study of planned commodity economy theory. We must take as our starting point for consideration of all problems and the basic standard of inspection for all the work whether it is beneficial to the productive forces, further liberates our thinking, and establishes fully new ideas about planning so as to lay a hard-headed ideological foundation for the switching of functions.

Second, make good organizational reforms. In keeping with the spirit of Premier Li Peng's report to the First Session of the Seventh National People's Congress and Comrade Song Ping's speech, we should integrate the actual situations of planning work, implement organizational reform of planning departments by separating government organs and enterprise, and further simplify government release of authority. We should keep horizontal relations in good order, strengthen comprehensive management and foreign economic management organizations, and we should weaken specialized management organizations, thereby creating comprehensive economic work departments that are fully functioning, with rational structures, capable personnel, coordinated operations, and with high results and flexibility. Through organizational reform, ensure the implementation of new functions from the standpoint of organization.

Third, raise the quality of cadres. Switching of the functions of planning departments places the highest demands on cadres. In order to suit the work requirements, we must use many different situations to train cadres well and continually update the ideas of the large group of cadres, widen their field of vision, increase their abilities, raise the level of planning work and promote the healthy development of the national economy.

## FINANCE, BANKING

### Country's Financial, Monetary Policies Aim for Economic Growth

40060491 Beijing CAOMAO JINGJI [FINANCE AND TRADE ECONOMICS] in Chinese  
No 6, 11 Jun 88 pp 32-35

[Article by Wang Weian 3769 4850 1344 of the Department of Finance and Banking of the Hangzhou University: "China's Financial and Monetary Policies on the Eve of An Economic Takeoff"]

[Text]

#### I. The Selection of Policy Goals

During the 9 years of its economic structural reform, China has been constantly puzzled by the expansion of aggregate demand except for 1981 in which aggregate demand and supply were balanced. Inflation—the unpredictable monster—came along. The economic structural reform is now caught in a dilemma. Judged by the achievements already made in the economic reform and the demands for economic growth, withdrawal and stagnation certainly will not work. The only choice is to deepen the reform in a timely manner. But the question is how to develop the economy while stabilizing it under the difficult and grim economic situation.

Economic growth is often inseparable from stable prices. Nevertheless, foreign historical experience shows that economic growth and stable prices cannot be had at the same time. As of today, not one country has been able to achieve fast economic growth without experiencing inflation. However, there have been some countries which had both fast economic growth and a fairly low inflation rate at the same time, but none of them has managed to escape the soaring inflation that eventually hit them later; so it is only a matter of temporal difference between economic growth and inflation. As you all know, Japan created a miracle in the economic history of the capitalist world between 1955 and 1973. Japan achieved unprecedentedly high economic growth and became the second largest economic country of the world. But during this period, Japan's consumer prices increased about 5 percent every year and close to 9 percent in some years. Since 1973, Japan has suffered from a runaway inflation.<sup>1</sup> We can also prove that countries with lower inflation do not necessarily have higher economic growth. The inflation rate of the United States has always been high. In recent years, due to the adoption of a tight monetary policy, the U.S. inflation rate has been kept low. But for this, the United States has suffered an economic stagnation with an annual economic growth rate of only 2 to 3 percent and changed from the world's largest creditor nation to the world's largest debtor nation. This explains that fast economic growth is always accompanied by high inflation and that a low inflation rate does not necessarily help the economy develop at a high speed.

In China, developing the economy should be the main goal of macroeconomic policy because the basic task for the initial stage of socialism is to develop productive forces and achieve economic growth. How can we tell that socialism is superior if our economy is underdeveloped and our people live in poverty? However, the superiority of socialism should be demonstrated in the stability of prices. This is the reason why China did not give up for a long time the policy to stabilize prices. But the economic reform since 1979 has brought about drastic changes in China's economic situation. On the one hand, the reform has helped the economy develop rapidly. Between 1979 and 1987, calculated according to comparable prices, China's GNP and national income increased at an average rate of 9.3 percent and 8.8 percent a year respectively.<sup>2</sup> On the other hand, during the reform, prices also increased sharply. In 1987 the national retail consumer price index was 45.6 percent higher than in 1978, an average increase of 4.3 percent a year.<sup>3</sup> Fast economic growth can reduce the friction caused by the coexistence of old and new systems and lay a solid foundation for transferring China's economy to the period of an economic takeoff. But sharp price increases may also become the main obstruction in the process of the above transfer. This is where the difficulty is in deepening the reform.

To further deepen the reform, we must make the final choice between the two difficult choices. In my opinion, given that we cannot have both economic growth and stable prices, we should put the former in a primary position. The reasons are:

1. China's economy is still very backward and occupies a very insignificant position in the world economy. According to the statistics of the World Bank, in 1985 China's per-capita GNP was only \$310 and China was considered a low-income nation and ranked 23 from the bottom of the list of 128 countries and areas of the world (not including countries and areas with a population of less than 1 million).<sup>4</sup> What is more dangerous is that the gap between China and developed countries, even some developing countries, is expanding continuously as each day goes by.<sup>5</sup> Some people estimated that if the per-capita GNP of developed countries increased at an average rate of 2 percent a year and ours increased at an average rate of 5 percent a year, it will take 121 years for us to catch up with developed countries, according to the official rate of exchange. This is still a fairly optimistic estimate.

The above situation explains why our economic development is lagging seriously behind, so we must wake up to this fact and rise to catch up with others. The 13th Party Congress has clearly pointed out the orientation of economic construction, but unfortunately many people of the theoretical circle are still in doubt. They are shocked by the fast economic growth in the past few years and use the popular word "overheating" to smother it. We do not need to hide the fact that there have been some "overheating" factors in the economic

development of the past few years such as consumption overheating. But whether or not investment is overheating remains a question that cannot be easily answered with a general answer. The scale of fixed-asset investment has always been on the large side, but its growth has slowed down considerably in the past 2 years. In 1987, the fixed-asset investment of state-owned enterprises increased 14.4 percent<sup>6</sup> compared with the previous year, the lowest growth rate since 1984. The scale of fixed-asset investment has been reduced to the lowest level. The main problem of investment is the irrationality of structure. We have invested too much in non-productive construction, especially hotels and restaurants, too little in basic industries such as energy and raw materials; too much in township enterprises and not enough in basic trades such as agriculture. The growth rate of agricultural production was 3.4 percent in 1986 and 4 percent in 1987. The growth rate of grain output was even lower, only 2.8 percent in 1987.<sup>7</sup> Judged by these figures, reducing total investment to solve the problem of investment structure is obviously defeating the purpose.

2. It is too early to try to achieve price stability and economic growth through powerful tightening measures under the current situation of price rises and before the mechanism of economic operations and overall regulation and control is perfected. Tightening can only reduce production and not control price increases. This is because China's current price increases are caused by the factors of growing demands, production cost, and especially structural problems; therefore, using only currency or financial policy to control price increases that are caused by non-currency factors simply does not work. The tightening policy is not very effective even in the control of growing demands. Judged from the control of investment demands, the tightening policy means reducing credit. Of which, enterprises' working capital loans cannot be reduced because reducing such loans may cause enterprises to stop work for lack of materials and reduce production. So the only part that can be reduced is fixed capital loans. However, under the current investment system, there is a mechanism inside enterprises to encourage investment but there is no mechanism outside enterprises to control investment. Once an enterprise finds that it does not have funds for fixed-asset investment and cannot satisfy its desire for investment, it would use working funds for fixed-asset investment. The resulting shortage of working funds will then force the bank to reopen the lending door.

Judged from the control of consumption demands, the tightening policy especially lacks the means of control over consumption demands. An important cause for the loss of control over price increases in the past few years is the excessive growth of consumption demands and the expansion of consumption funds. This inflation is different from before. Previous bouts of inflation were mostly caused by the expansion of investment demands and therefore could be controlled by adopting coercive measures to reduce the total supply of credit; whereas

this bout of inflation was caused by the expansion of investment demands which later caused consumption demands to increase and become the main factor of the inflation. The experience of all countries has proved that it is very difficult to control inflation caused by the expansion of consumption demands because the existence of the rigidity of income and interests and the exemplary effect could only cause consumption funds to increase continuously.

3. Even if we succeeded in controlling prices after making great efforts and paying a great price, our economy is not guaranteed to grow. As mentioned before, a low inflation rate does not necessarily help the economy develop faster. China has a shortage economy whose development is ultimately restricted by natural resources. It is true that we will run into the same problem when we develop our economy under the current situation, but it is at least better than having to develop our economy after suffering from the "pains" caused by the above-mentioned tightening measures. Therefore, under the current economic situation, economic growth is the primary goal for China's macroeconomic policy.

## II. The Selection of the Best Policy

Putting economic growth first does not mean that we do not want stable prices. The situation and practicality force us to put price stability second, but we will not relax price control because of this, still less will we adopt an inflationary policy. Our task is to maximize economic growth and minimize inflation. Otherwise, there will be no need for us to formulate a macroeconomic policy and control aggregate social demand. Of course, exercising control over aggregate social demand does not mean tightening everything. Instead, it means regulating aggregate social demand by appropriately relaxing in some areas and tightening in others. This is the fundamental basis for the selection of our macroeconomic policy.

The regulation of aggregate social demand may be focused on financial and monetary policies. The main function of financial policy is to regulate aggregate social demand through tax, budget, and spending policies to achieve a balance between aggregate demand and supply. The monetary policy is to change the interest rate by increasing or reducing the money supply, thereby regulating investment demands. This shows that financial and monetary policies have different policy tools and work in different sectors of the economy. Many people think that financial policy works mainly in the field of distribution while the monetary policy works mainly in the field of circulation. I think this view is one-sided. The nature of finance determines the important role of financial policy in the field of distribution, but the role of financial policy in regulating consumption must not be ignored either. Through the tax policy (which affects the residents' income) and spending policy (which affects the purchasing power of social organizations), financial policy also affects consumption. In addition to regulating

the amount of currency circulation to suit the amount of commodity circulation in the field of circulation, monetary policy also regulates, through interest rate policy, enterprises' investment activities in the field of production. Therefore, financial policy works mainly in the fields of distribution and consumption while monetary policy works mainly in the fields of production and circulation. This is an important basis for the selection of our macroeconomic policy.

Since financial and monetary policies each have their own policy tools and work in different fields, they should be used together in macroeconomic management. Usually, there are four different ways of pairing up these two policies, namely a loose financial policy with a loose monetary policy, a loose financial policy with a tight monetary policy, a tight financial policy with a loose monetary policy, and a tight financial policy with a tight monetary policy. Different financial and monetary policies should be adopted for different economic situations. Different policies can create different policy effects.

At the present, the major problem China's economy now faces is the expansion of the aggregate demand. Apparently, we cannot use a loose financial policy along with a loose monetary policy. Since the expansion of China's aggregate demand is caused mainly by the excessive growth of consumption demands and the irrational structure of investment demands, using a loose financial policy along with a tight monetary policy will lead to just the opposite of what we want. A tight financial policy along with a tight monetary policy usually should not be adopted unless it is absolutely necessary. During the serious inflation of the 1960's, China used the "double tight" policy. But our situation is different now. For one thing, we need to deepen the reform and develop the economy. For another, this inflation is not as serious as the one in the 1960's. According to the statistics of the World Bank, China's annual inflation rate between 1980 and 1985 was 2.4 percent<sup>8</sup> which was relatively low compared to other countries. Although prices increased by a large margin in 1986 and 1987, judged from the situation as a whole, things are not as serious as some people thought. Therefore, the "double tight" policy should not be adopted for it may do more harm than good. A tight financial policy along with a loose monetary policy are the best choice for China's macroeconomic policy.

Adopting a tight financial policy along with a loose monetary policy can avoid or reduce the various drawbacks of the "double tight" policy such as hindering the reform of financial and monetary systems and the readjustment of economic structure. We need to adopt a tight financial policy because it can control consumption demands and more importantly because the current financial system is irrational. Under the current financial system, all tax rates are high only in name. In reality, enterprises often get to lighten or exempt themselves from tax burdens by bargaining. In addition, since the



tax law and system are not perfect, the phenomenon of tax evasion is serious among enterprises and some individual industrial and commercial households. The uncertainty of tax revenue and the irrationality of the tax law and system have substantially reduced revenue while expenditure continues to increase. Administrative expenses, in particular, have increased extremely fast since 1982 and its increase rate is much higher than that of revenue in the same period. This has resulted in the loss of control over the purchasing power of social organizations. In 1986, the purchasing power of social organizations in China was 46.2 billion yuan. Between January and October 1987, it showed an increase of 20.2 percent<sup>9</sup> over the previous year. The final result of the above situation is fiscal deficits and price increases. Between 1979 and 1986, fiscal deficits totalled 49.01 billion yuan (after deducting the 2.16 billion yuan of surplus in 1985).<sup>10</sup> The fiscal deficits will reach 100 billion yuan if we take into consideration the 29.93 billion yuan of treasury bonds issued by the state during this period, the amount of local fiscal surplus drawn by the state financial department, and the 8 billion yuan of budget deficits for 1987. Since there is no balance from previous years, the near 50 billion yuan of fiscal deficits were covered by overdrawing on the bank. Undoubtedly, fiscal deficits are one of the main causes for the current oversupply of currency in China. Under this condition, should we fail to adopt a tight financial policy, the consequences will be dreadful to contemplate.

As for the reason for adopting a loose monetary policy, as I said before, a tight monetary policy not only cannot control excessive consumption demands but can affect production and investment whereas a loose monetary policy can help accelerate production development and create a relaxed economic environment for the reform.

To implement a tight financial policy and a loose monetary policy, we may consider the following measures at the present: 1) make the tax law more serious and less flexible while continuing the existing tax rates; 2) draft a new personal income tax law to increase revenue from domestic personal income taxes; 3) continue to restrict capital construction spendings and exercise a tight control over administrative expenditures; 4) appropriately increase money supply in accordance with the needs of production; 5) adopt differential rates of interest and emphasize the readjustment of economic structure; and 6) stop fiscal advances including fiscal overdrafts and the transfer of enterprises' working capital to fixed assets.

### III. Supplementary Measures for the Implementation of Policies

1. Improve coordination between planning and policies. The coordination between the national economic planning and financial and monetary policies also concerns the success and failure of macroeconomic management. Due to a lack of coordination with financial and banking departments, the State Planning Commission blindly draws up some impractical administrative plans only to

find the plans fail and lose the overall control. We have had too many profound lessons in this regard. The saying that "the planning commission sets the plate while financial and banking departments issue paper money" is a realistic portrayal of the above situation. What is more serious is that among the calls for bringing in the market mechanism in the past few years, the function of China's planning system have been weakened. Some policymaking departments ignore the guiding function of planning, unduly trust the market mechanism, and slacken their efforts to carry out their plans. I think that we should not show any sign of slackening in the coordination of planning and policies especially during the transitional period before the economic takeoff. Instead, we should tighten the control of planning in certain areas. For instance, most of the plans we formulated are annual economic development plans and very few are intermediate- and long-term financial and credit balance plans. So our financial and monetary policies can only focus on the control of short-term goals and are unable to do anything about achieving intermediate- and long-term goals. To enhance coordination between planning and government departments, many developing countries have established special coordinating organs. Such management methods are worth copying.

2. Do a good job in linking wages to prices. The implementation of every policy must be aimed at improving the people's living standards. Workers' wage reflects the true picture of workers' living standards. Under the current situation of price increases, adopting a tight financial policy and a loose monetary policy is difficult to stop, or may even worsen, price increases. This requires that we take other remedial measures to ensure that workers' living standards will not decline as a result of price increases. Workers cannot take the pressure of price increases unless their wages are linked to prices to ensure that their wage level rises as price index rises. However, linking wages to prices is a very complex, theoretical and technical issue and should be handled carefully.

3. Vigorously develop a long-term money market and channel capital flow in a timely manner. Developing a long-term money market can transform a part of residents' consumption funds into production funds to support basic industries and major state construction projects, thus accelerating the readjustment of industrial structure. In this way, we can lighten the pressure caused by the loose monetary policy on the market and alleviate the shortage of construction funds caused by the tight financial policy. At the same time, opening bond market, especially state bond exchange market, can find a way to raise revenue and provide a powerful policy tool (the policy tool of open market operation) for the central bank to exercise overall monetary regulation and control.

#### Footnotes:

1. Statistics come from "The Monetary Policy of the Bank of Japan and Its Regulatory Functions," published by the publishing house of China's Banking



2. Calculated in accordance with relevant materials in "The 1987 Bulletin on the Statistics of National Economy and Social Development" and "China's Statistical Yearbook"

3. Ibid

4. Page 202, "The 1987 World Development Report" of the World Bank

5. See 7 March 1988 "The World Economic Reporter"

6. See "The 1987 Bulletin on the Statistics of National Economy and Social Development" and 24 February 1988 "Economic Reporter"

7. Ibid

8. Page 202, "The 1987 World Development Report" of the World Bank

9. See 27 February 1988 "Guangming Ribao"

10. Relevant data derive from "China's Statistical Yearbook" of 1987

12302

#### **Proposed Measures for Reforming Banking Industry**

40060490 Beijing CAIMAO JINGJI [FINANCE AND TRADE ECONOMICS] in Chinese  
No 6, 11 Jun 88 pp 36-38, 27

[Article by Zhang Zhongshan 1728 1813 1472 and Zhao Huaizhu 6392 2037 3796: "The State Should Concentrate on Developing the Banking Industry in the Eastern Coastal Region"]

[Text] The theory of the initial stage of socialism put forward by the 13th NPC has enormous significance for us as we try to reassess financial work over the past 39 years, particularly financial reform in the last 9 years, overhaul China's banking industry, and establish a financial system with Chinese characteristics.

#### **I**

1. China's socialist banking industry has its origins in bureaucrat capitalist banks of old China, in war communist banks of the era of revolutionary bases, and in state banks established under the planned economy. Inheriting what history has bequeathed to us and owing to objective environmental factors, China's banking industry is actually founded on an underdeveloped commodity economy and highly developed relations of social production, which are extremely incompatible with each other. Hence these unique contradictions in the banking industry. The maximum effectiveness of indirect regulatory mechanisms and the prompt effectiveness of direct regulatory mechanisms have combined to create a

macroeconomic banking regulatory system with both the spontaneity of economic regulation and the rigidity of administrative regulation. The banking industry objectively supports the stable development of a commodity economy even as state banks support the social function of government budgeting, which makes the act of putting money into circulation an economic as well as a non-economic activity. To achieve a comprehensive balance, the planning system demands a high degree of centralization. On the other hand, the market operates according to the principle of the survival of the fittest. As a result, lending in China is both planned and market-oriented. Traditional government control of banking has made Chinese banking institutions uniform. On the other hand, the notion of banks managing banks has diversified such institutions. Because of the state's demands on the banks, the latter are evaluated by their performance in meeting social purposes. In contrast, the banking industry's expectations of the state have made them more conscious of their own interests. These contradictions and conflicts have given the banking industry in the initial stage the following basic characteristics: 1) The dualism of bank functions. Since the banking system and regulatory mechanisms continue to take shape and improve throughout the initial stage of socialism, bank functions are in a stage of transition between the old and new systems, a lengthy process characterized by their coexistence. As a state bank, the central bank must, on the one hand, deploy all its economic regulatory tools to manage and supervise the nation's financial institutions and financial market, implement the state's mandatory policies, provide the state with credit, act as the state's cashier, and manage the state's gold and foreign exchange reserves. On the other hand, it must support other government activities, coordinate itself with the government, and serve its various needs. As a bank of issue, the central bank cannot increase the money supply as much as the development of the social commodity economy requires in order to maintain currency stability. Instead, it must decide how much money to pump into circulation by considering the extent to which government desires to expand the economy and the mandatory nature of special banks' lending capacity. As a banks' bank, it assumes the obligations of the final creditor, on the one hand, and allocates funds among various financial institutions in accordance with a plan and driven by the planned management of credit funds, and engages in some lending activities, on the other. The central bank, therefore, discharges two kinds of functions—macromanagement and monetary operations. As for the various special banks, they specialize in credit operations in a certain field and regulate their credit activities in accordance with the government's monetary policy, thus stimulating banking on the micro level. At the same time, they must play a leading role in the banking industry by managing the macroeconomy on behalf of the state.

2. The longstanding coexistence of a multitude of financial institutions, led by state banks. Clearly the existence of a variety of economic forms is inconsistent with the

presence of one single form of state bank. Thus there is an objective need to reform the existing banking system and diversify financial institutions. However, the diversification of financial institutions should not be rigidly interpreted to mean that there must be a separate kind of financial institution to serve a particular economic form. Instead, we should do what the situation requires and take the actual needs of the development of a commodity economy as our starting point. In general, the initial stage of socialism will continue to see for years to come a banking system dominated by state banks where banks are responsible for their profits and losses and develop on their own and where a multitude of ownership systems and operating methods coexist.

3. A strained money supply. There are two reasons for the shortage of money supply so common in economic operations and development in the real world. The first has to do with the system-driven growth in demand. Much weaker than private ownership in restraining demand, public ownership opens the floodgates of the pent-up consumption demand of the masses, a demand which tends to grow inexorably. Second, the intense desire to shake off backwardness and the impatience to bring forth the superiority of socialism make for an overheated economy, accompanied by an over-expansion of the scale of capital construction and consumption demand. Yet because of a low level of productive forces and economic underdevelopment, funds and materials are in a constant state of scarcity. In particular, the shortage of funds is exacerbated by the inefficient way in which funds are utilized and by waste. This imbalance will continue to manifest itself as scarcity for a considerable period of time. In other words, the internal driving force of scarcity is neither nature nor the operational needs of the economy. Rather it is part of the process as the government or society pursues fast economic growth. Furthermore, the less developed the economy and the keener the government to achieve fast growth, the tighter the supply of funds, not plentiful to begin with, will be. This is an objective inevitable fact in the initial stage.

4. The uneven and mixed nature of the development of the money market. China must not expect the commodity economy to develop at a uniform pace throughout the country. Because the commodity economy is more developed, the scale of credit more extensive, and the returns on fund utilization better in the east than in the west, the money market will develop highly unevenly. Traveling from the east to the west, we can see the money market operating at three levels—high, intermediate, and low—and on three different scales—large, intermediate, and small. While this uneven pattern of development may change as the economy develops, it is unavoidable and is actually much needed in view of our economic development strategy in the initial stage. Nevertheless, uneven development does not exclude intermingling. Maybe it is the intermingling of different forms of money markets and activities that gives China's financial system its distinctive characteristic.

5. Instability of economic regulatory tools. An objective requirement of the commodity economy is that economic tools be used to regulate economic life. In the initial stage, however, the financial market remains immature, the market system is murky and far from perfect, and the market mechanisms are insensitive. To rely solely on market mechanisms under these circumstances cannot resolve some of the more knotty problems in financial development. On the contrary, the use of market mechanisms may even hurt economic development because of distortions in market information. To correct this error, we have no alternative but to utilize direct regulatory methods and take mandatory adjustment measures whenever necessary. The fact that methods of administrative regulation are highly effective in the short run and the randomness of economic regulatory tools put credit, interest rates, the market, and other regulatory instruments in a constant state of unstable subordination or adjustment.

6. Many players involved in management and operations. In light of China's existing financial system and the requirements of financial reform, management and operations in the banking industry in the initial stage take place essentially at three levels. At the highest level, that is, the level of national macromanagement, are financial institutions which, through their own management and operations, can allocate funds properly among all regions and sectors throughout the nation. At the intermediate level, that is, the level of local or regional management and operations, are financial institutions capable of allocating funds equitably and utilizing funds effectively in extensive economic regions. At the lower level, that is, the level at which each microfinancial institution manages itself and operates on its own, are financial institutions which must, through their management and operations, effectively utilize the fixed amount of funds at their disposal to make the most of them. These levels are interdependent and interactive, giving Chinese finance its special form of management and operations.

7. The diffusion of investment choices. Economic structural reform is necessarily accompanied by the phenomenon that the central government, localities, sectors, enterprises, and other units all have some funds to be used completely at their discretion. These funds, which cannot be appropriated by other units at will, constitute the material base for diffused investment. The diffusion of investment choices may mean that funds are used somewhat haphazardly. But it is exactly such diffusion that compels the units which stand to gain the most to go after information and learn everything about the market so that they can make the right investment decisions, draw up an investment plan, and avoid wasting funds. Since it will help improve investment returns, it is an investment strategy well suited to Chinese conditions.

8. The unevenness of the development of the banking industry. The banking industry started out at three levels depending on the location. This is because regions differ

in the level of economic development, in the economic units supported by financial institutions, in the climate of credit activities, in technology and equipment, in geographical conditions, and in the caliber of their personnel. It is difficult to remove these spatial differences. In terms of time, the eastern coastal region, with its developed economy and solid infrastructure, is uniquely endowed by nature to develop a banking industry. Aided by the state's special preferential policies, the east has been developing at a pace the west cannot hope to match. Such unevenness in level and pace of development can very well lead to a scissors-like development pattern. Of course, unbalanced development may occur in any society and under any circumstances. But if a large and economically backward country like China wants to be modernized, it has no alternative but to opt for a development strategy that sets regional priorities and allows some areas to take off economically as soon as possible so that the development there may trickle down to the less developed areas, thus fueling their economic growth. For this reason, imbalance will always be around.

## II

The purpose in studying the above-mentioned characteristics of the banking industry in the initial stage is to use them as our starting point to review the reform experience in the last 9 years, correct the direction of reform, and remodel the reform framework. Herein lies the key to successful reform. In light of the needs of reform and the reality in the development of a Chinese banking industry, we believe the industry's hope are pragmatism and innovation. The objective of financial reform is to take advantage of the diversification of financial institutions to establish a mature financial market and a flexible and effective macroregulating system.

### 1. Develop diverse financial institutions.

a. Reform the system of state banks. First, change the internal operating mechanisms within special banks by implementing different kinds of the management responsibility systems and by transforming existing major special banks into economic entities that practice independent accounting and self-management, be accountable for their own profits and losses, and pursue self-development. De-emphasize the vertical allocation of funds from the top down. Second, as special banks stop seeking funds from their parent banks, those at the provincial, municipal, and autonomous region levels should be allowed to operate independently under the comprehensive financial management, supervision, and guidance of the People's Bank of China. Right now the People's Bank, with its countless branches, is spreading itself too thin. It should streamline and retrench appropriately, setting up branches in economic regions as macromanagement requires. That would help it respond quickly and flexibly to information, transmit monetary and credit policies promptly, and carry out strong and effective financial management and regulation.

b. Develop local banks and general banks devoted to serving the regional economy. Local banks and regional general banks may be publicly or privately owned. They may be joint-stock companies. Their business and operations may be comprehensive or specialized. For instance, a local bank may specialize in local investment and lending related to major policies, while a regional bank may develop into a general bank with no restrictions on its scope of business. At present, local banks and regional general banks can only be established in some developed provinces or large cities. It is inadvisable to extend them to below these levels.

c. Develop non-bank financial institutions. Now is the time to give people a free hand in developing urban and rural credit unions and other cooperative credit organizations. As the commodity economy grows and integrated bodies take shape, these credit unions should try to transform themselves into cooperative banks. Urban credit unions should be encouraged to develop into urban credit cooperative banks. The insurance industry should be reformed by gradually transforming existing compensation-oriented insurance companies into financial organizations that provide funds for short-term loans. Finance companies should be established for large enterprises or corporations and "intra-enterprise" banks should be created. The existence of traditional financial institutions should be allowed, such as old-style banks, pawnshops, second hand shops, warehouses, storerooms, and others. The existence and development of private credit organizations and other institutions which make short-term loans should be permitted, provided they benefit economic development and meet the people's needs.

### 2. Continue to improve the management system of credit funds.

a. Break the habit of "eating from the big rice pot" of state bank funds. First, the People's Bank should stop allocating credit funds at the beginning of the year and guaranteeing funds for special banks. All loans to special banks must be repaid by a specified time. If a bank misses the due date, it should be required to pay a fine on the interest. When a special bank is low on funds, it should try to solve the problem by attracting deposits and look to the market for help. Second, the credit fund plan should be totally severed from the credit fund supply. Special banks must try to balance credit funds and assume risks on their own. It is with such tools as deposit reserves, interest rates, and the market that the People's Bank should guide the credit activities of financial institutions.

b. Put a complete end to the practice of enterprises "eating from the big rice pot" at the expense of special banks. Taking into account the national industrial policy and the state of the enterprise concerned, a special bank should be free to decide on its own whether or not to extend a loan. It may choose between unsecured loans, mortgage loans, guaranteed loans, overdrawn loans, and

discount. It may invite and enter bids. Or it may purchase enterprise bonds. The enterprise, for its part, should borrow from financial institutions on the strength of its good credit standing. If necessary, qualified enterprises may set up their own finance companies to raise funds to finance development. As part of the contracted system of management responsibility, "within-factory" banks are being created or improved within enterprises to enhance their capability of survival and self-development. This should go a long way toward helping enterprises stop "eating from the big rice pot" at the expense of special banks.

3. Establish and improve market mechanisms. Energetically develop the main elements of finance. Improve financial tools and methods of raising short-term loans. Perfect the machinery of managing the financial market. First, improve the inter-bank lending market. Deregulate the stock, bond, and discount markets as well as the treasury bill transfer market one by one. With a sound short-term funds market in place, we should perfect the long-term funds market and securities exchange market. We should establish links with financial markets like Hong Kong, Japan, London, and New York gradually to internationalize our major financial market. As financial legislation and financial market management become even better, we can introduce into China all instruments commonly used internationally to raise short-term funds.

4. Perfect the macroeconomic regulatory and control system by the central bank. First, reform the macroeconomic regulatory mechanisms. Reform re-lending methods to separate them completely from administrative command planning of the past and gradually link them to acceptance discount. Reform the deposits reserves system by offering different kinds of rates in order to facilitate regulation. Sort out the interest rates of loans with different maturities so as to make the most of interest rates as an economic lever. Vary interest rates according to the maturity of loans to speed up fund circulation. Reduce unsecured loans to a minimum and consider offering mortgage loans and rediscount. Reform the joint-bank system. Establish a fund clearing-house. Computerize fund clearing. Next, consider adopting indirect macroeconomic regulation exclusively and controlling the money supply in the entire society by controlling the amount of re-lending, interest rates on loans, and interest rates on deposit reserves, and by opening up the market. Project short-term money supply and demand using monetary engineering. Project long-term money supply and demand trends through financial planning and draw up a correct monetary policy accordingly.

5. Adopt a flexible and diverse financial development strategy. The eastern coast is a key economic development base for China, a barometer of the nation's economic development level. In discharging its financial macroeconomic regulatory functions, the government should target this region and diligently put finance on a

sound footing there, thus seizing the initiative in developing a banking industry. As special economic zones are the window for Sino-foreign economic and technological exchanges and a laboratory of reform, the state should first try out various reform measures and plans in the zones where it can act boldly to gain experience. The west is economically undeveloped and accounts for a small share of the gross national product. With its weak economic foundation, poor natural conditions, backward technology, and fund shortages, the west is hampered in its effort to develop a banking industry. At present, the government seems to be torn between helping the west, which it cannot afford to do, and washing its hands of it, which it cannot bring itself to do. The government should stop acting this way and concentrate its resources on developing the east. Provided it does not violate the state's national banking policies, the west should be allowed to determine its own banking policies and develop on its own in light of local conditions, free from direct interference by the state.

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## SMALL-SCALE ENTERPRISES

### Provincial Official Calls for Full Support of Private Enterprises

40060476 Xining QINGHAI RIBAO in Chinese  
8 Jun 88 p 2

[Article by Cao Shengfu 2580 3932 4395, Director of the Qinghai Provincial Township Enterprise Administration: "We Should Give Bold Support to the Development of Private Enterprises"]

[Text] I would like to express some of my opinions on the discussion of the private enterprise run by Ye Tingxiang [0396 1694 4382]

Private enterprises refer to enterprises with privately-owned assets and hired workers. Namely, they are different from individually-run industrial and commercial enterprises and state, collective, and cooperative enterprises. With regard to the position and function of private enterprises, Comrade Zhao Ziyang clearly pointed out in the report of the 13th Party Congress: "The private economy is an economic sector where wage labor relations exists. Under the socialist condition it is, however, unavoidably linked to the dominant public economy and subject to the great influence of the public economy. Practice has proven that the private economy, developed to a certain extent, can help accelerate production, invigorate the market, increase employment, and better satisfy a variety of demands in the people's daily life; it is an imperative and useful supplement to the public economy." During the amendment of certain provisions of the Constitution, the First Plenum of the Seventh NPC made the following stipulations. The state allows the private economy to exist and develop within the scope prescribed by law, the private economy

is a supplement to the socialist public economy, and the state protects the lawful rights and interests of the private economy. This has legally assured the position of private enterprises.

The private enterprise is a component of the township enterprise. It is also a very efficient way of developing the commodity economy at the present stage. The past few years of practice in developing private enterprises has proven that the private enterprise is of great importance in combining funds, technology, and labor, quickly transferring them into productive forces, providing a variety of job opportunities, creating social wealth, increasing state revenue income, and accelerating the growth of managerial personnel. At the same time, the private economy is also an indispensable force in developing China's commodity economy, a controllable and plastic form of economy in the system of the socialist economy, and an imperative and useful supplement to the socialist public economy.

China is currently in the initial stage of socialism. Qinghai Province is economically backward. It has a large impoverished area and an underdeveloped commodity economy. To change the situation of limited productive forces in Qinghai Province, bring prosperity to the vast rural and pastoral areas, and rationally distribute and fully utilize various production factors, relying solely on current state and collective economy is far from being enough. To do so, we must develop a variety of economic forms including the private economy and rely on the concerted efforts of the state, the collective, and the individual. In the past few years, pushed by the spring tide of reform and along with the rapid development of individual industrial and commercial enterprises, a group of private enterprises has been gradually developed in the rural areas of Qinghai Province. According to the statistics of relevant departments, at the end of 1987 the number of private enterprises in Qinghai Province reached 267, accounting for 0.5 percent of individual industrial and commercial enterprises. The total income of private enterprises accounted for about 4.7 percent of the total income of individual industrial and commercial enterprises. The development of private enterprises is playing an increasingly prominent role in accelerating the development of Qinghai's rural commodity economy. Take Ye Tingxiang's private enterprise, an alloy iron plant, for example. It is considered one of the best plants in the province in regard to the input of capital, the scale of construction, the transfer of labor, and the earning of foreign exchange. Its economic and social returns are also prominent. However, we need to point out that such a private enterprise is very rare in Qinghai's rural and pastoral areas. We do not have many or too many such enterprises. We have very few of them. So we must vigorously encourage their development.

True, the private enterprise is an economic entity of the wage labor relation and problems are unavoidable in the areas of management policy, production management,

sales, distribution, and workers' welfare, but there are two sides to everything and the good always comes with the bad. There is only one criterion for judging the private enterprise. That is to see if it is conducive to the development of productive forces. First we must realize that the positive effect of the private enterprise in transferring and absorbing surplus labor, developing productive forces, and turning poverty into prosperity is much greater than any negative effect it could possibly have. In the past 3 years, Ye Tingxiang's enterprise has placed over 100 idlers in rural areas, earned over \$1 million of foreign exchange for the state and paid over 500,000 yuan in state taxes and over 100,000 yuan in industrial and commercial management fees. In addition, he took the lead in becoming rich, accelerated the development of the rural commodity economy, and made contributions to the state. Therefore, first we should give active support and correct guidance to private enterprises, strengthen control, and encourage what is good and eliminate what is bad to help bring about a continuous and healthy development of private enterprises.

In light of this discussion and the current development situation of Qinghai's private enterprises, the management departments of township enterprises at all levels must clearly understand the position and function of private enterprises, discard old and outworn concepts, and establish the new concept and the new idea of a commodity economy, and enthusiastically and boldly support the development of private enterprises. We should pay attention to protecting the lawful rights and interests of private enterprises and render service to their development. Through continuous efforts we should strive for a great development in Qinghai's private enterprises and ensure that they play a positive role in revitalizing Qinghai's economy.

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## FOREIGN TRADE, INVESTMENT

### Article on Strengthening Guangdong's Trade With Hong Kong, Macao

40060462 Beijing GUOJI MAOYI [INTERTRADE] in Chinese No 6, 27 Jun 88 pp 13-16

[Article by Peng Naidian 1756 0035 1648: "Thoughts Concerning Deepening Economic and Trade Cooperation Among Guangdong, Hong Kong, Macao"]

[Text] Since China began to practice reform and liberalization, trade with Hong Kong and Macao has continued to expand and the cooperative relationship has become closer every day. These events have promoted economic prosperity for all 3 regions. To take steps to deepen still further the economic and trade cooperative relationship has been a shared desire and demand of all three.

In the process of entering the new economic and trade cooperation, Hong Kong and Macao are confronted with an unceasingly changing international trade situation. First, it should be pointed out that in the past 20 plus years, due to relative weakening of economic power of the U.S., the basic structure of her political and economic domination of the world has begun to pluralize to result in a new world situation of forming coalitions. The international currency system, with the U.S. dollar as its center, has gradually changed into a complex and plural system. Under the powerful interference of protectionism, international trade has fallen into a situation of intensifying competition. For 2 years, the value of the dollar has continued to drop while that of the Japanese yen and German mark risen extensively. The crash late last year is one more indication of the new change of the economic situation of the world.

In this new transformation, the economic power of Asia in the Pacific region rose suddenly to become an important influence on the development of world economy and trade. The most obvious characteristic in the development of the Asian Pacific region is its regional economic cooperation. It is from this type of cooperation, new industrialized nations which have drawn the attention of the world, the so-called regional "four little dragons," have emerged. This cooperation will continue to give impetus to economic and technical progress of another group of nations and regions. In the trend of increasing regional economic cooperation, the area of Guangdong, Hong Kong, and Macao, being a golden triangle, and relying upon its combined geographical, traditional, and actual strength will make extraordinary strides. Its actual power of linkage is immensely collectivized.

First, the Chinese Communist Party at its 13th National Congress, affirmed once again that China practices "one nation two systems" and the basic national policy of reform and liberalization. This affirmation has become the most powerful factor for deepening economic cooperation of the 3 regions. The door of enduring and steadfast cooperation has been opened wide.

Second, the implementation of a developmental strategy of establishing an externally oriented economy in Guangdong Province has provided a new and expansive future for further economic and trade cooperation of the 3 regions.

Third, with the continued devaluation of the dollar and the large scale increase of valuation of the Japanese yen as well as currencies of South Korea and Taiwan, the new change toward international division of labor of the Asian-Pacific Region accelerated. The pressure on the traditional industries of the region of Hong Kong, Macao to upgrade and replace has also increased. How to turn quickly from the labor concentration type cost reduction competition to the capital concentration type high-tech and high quality competition has become a very crucial

subject. This new need in the economic development of Hong Kong, Macao also provided an added content to demand for cooperation of the 3 regions.

After the global stock market crash, the economies of all the nations of West were affected to various degrees. The pace of growth of the world economy is obviously slowing down and trade protectionism raises its head still more. The call for economic cooperation of Guangdong, Hong Kong, and Macao to cope jointly with the constant fluctuation of the international economic and trade situation is louder than ever. Faced with the turbulent situation, from the viewpoint of the objective reality and the long term developmental targets of the Guangdong, Hong Kong, and Macao economic block, serious investigations into the form and content of the ways of deepening economic and trade cooperation of the 3 regions are positively and realistically meaningful.

(1) Trade within the 3 regions should be further expanded to deepen trade cooperation. Hong Kong and Macao is historically the major market of Guangdong's exports. Before 1978, it had been a vertical trade (including transfer trade) between Guangdong and Hong Kong and Macao for a long time. The form was simple and the growth was slow. The products supplied by Guangdong to Hong Kong and Macao was mainly agricultural products, amounting to more than 70 percent. Products imported from Hong Kong and Macao were essentially machines and electrical equipment. Following the practice of reform and liberalization in the mainland, traditional trade channels recovered and new trade forms opened up. There have been rapid trade developments from both sides. The mutual trade between Guangdong and Hong Kong and Macao reached \$4.715 billion in 1986, an increase of 6 fold from 1978 and more than 30 fold from 1955.

The volume of exports from Guangdong to Hong Kong and Macao has increased immensely. In the 8 years of 1979-1986, the total exports from Guangdong to Hong Kong and Macao reached more than \$11 billion, more than doubling the total of the 24 years between 1955 and 1973. The volume of 1987 was still greater than that of 1986. Through the years, about 50 percent of Guangdong's exports go through Hong Kong and Macao to be transferred to all other places of the world. The structure of Guangdong's exports has changed a great deal in these years, about 70 percent are textiles, machinery, hardware, and tools and only 30 percent are agricultural products. Most imports of Guangdong have also been purchased as transit merchandise from Hong Kong and Macao. Since 1985, the mainland has surpassed the U.S. as Hong Kong's largest trading partner; Guangdong played an important part in this.

The fact that the processing trade between Guangdong and Hong Kong and Macao has been unprecedentedly active in recent years is also worthy of mention. After neighboring Guangdong opened its doors for external economic and technological cooperation, the policy was

immediately welcomed by merchants of Hong Kong and Macao. The abundant and cheap labor force and the rich natural resources of Guangdong provide an important condition for merchants of Hong Kong and Macao to seek trade cooperation. Great efforts have been exerted by Guangdong to launch trades of "processing supplied materials," "manufacturing according to supplied samples," "assembling supplied components," and compensational trade with Hong Kong and Macao. The income from wages thus received rose from the \$1.1 million of 1978 to the \$300 million dollars of 1986. Propelled by the "three forms of processing and compensation trade" rule, the capital of Hong Kong and Macao flows into Guangdong in a continuous stream to reach about \$3.8 billion and a big batch of joint capital and cooperative enterprises between Guangdong, Hong Kong, and Macao were born from that.

As joint and processing industries develop, the trade of raw materials and component parts expand rapidly. At the same time, under the policy of "trade, industry, and agriculture", processing industries of supplied materials have also grown somewhat. The development of the processing trade led to some obvious changes in the content of trade between Guangdong and Hong Kong and Macao. Changes from the vertical trade of simple products to the horizontal trade within products occurred gradually. Now, with some products and factories, the trade among parts, components, and semi-finished products has been expanding continuously between Guangdong, Hong Kong, and Macao.

The interproduct trade started from the development of processing trade deepened into a trade relationship and economic cooperation between Guangdong, Hong Kong, and Macao. This event is beneficial to the stabilization of Hong Kong's and Macao's advantageous role of low-cost competition of its traditional products on the international market place, and is also favorable for the development of high tech industries and products in the area, using the capital thus accumulated. It also provides the condition for the expanded utilization of foreign capital in Guangdong, introducing technology and management experience and acquiring information of international markets. The need for economic development shared by Guangdong, Hong Kong, and Macao lead the regions to go all out to adjust their industry structures to launch multiple, new, high tech, high quality products in order to improve their competitive position on the international market. This is the foundation for developing bilateral interproduct trades, while the strengthened bilateral industrial investment forms the important force to push forward the development of inter-industrial trade.

Based upon the developmental trend of the international market, if both sides give free rein to the advantage of each to deepen inter-industrial trade cooperation, both will certainly benefit in their continued efforts of expanding their international markets.

As processing trade has been an effective form for promoting the development of inter-industrial trade of both sides, the practice of "the three forms of processing and compensation trade" should be further enlarged and joint-capital and cooperative enterprises should be continued to deepen the trade cooperation relationship. Guangdong may make further adjustment in its industrial structure to increase exports of high quality industrial raw materials, parts, and semi-finished products needed by Hong Kong and Macao. At the same time, it may use the raw or auxiliary materials imported from Hong Kong and Macao to resolve the deficiency problem of some resources.

Other aspects of trade, such as transit trade between the 3 regions, should follow the deepened inter-industrial trade to increase to a new and higher level.

(2) Joint exploration of new technologies may deepen capital investment cooperation. In the past 3 decades, Hong Kong and Macao has achieved giant strides in such traditional industries as textiles, garment manufacturing, plastics, toys, electrical products, etc. Product designs are multitudinous and flexible to enable them to maintain a relatively strong competitive strength. Generally speaking, however, the industrial structure still belongs to the processing, assembling characteristic and such labor-intensive fields as textiles, garment, etc. remains to be Hong Kong's largest exports. There was no breakthrough toward the development of pluralized high tech areas. Although it is known to be one of the "four little dragons" of Asia, the other "three little dragons" have all made progresses in upgrading their traditional industries.

A great deal of capital has rushed into Hong Kong in recent years, but most of it was invested in financial, service, and assembling industries and very little of it was used to launch new technologies and new products. By 1986, the U.S. invested about \$46.8 billion in Hong Kong, mainly in textiles, banks, services, and power generating areas. According to a Hong Kong survey, industries of the size of 1,000 employees founded by foreign investors in Hong Kong are basically for assembling and processing. At present, with increasingly louder voices, all factions in Hong Kong are calling foreign investors to invest in high tech industries.

In recent years, on the other hand, Guangdong has cooperated with merchants of Hong Kong and Macao to launch more than 10,000 items belonging to the "three forms of processing and compensation trade", which enabled Guangdong to effect great changes in its garment, textile, residential electrical power, plastics, toys, artificial flowers industries to open itself further and to establish an externally oriented economy, while at the same time these accomplishments have resulted in higher demands on Guangdong to proceed with more external economic and technical cooperation.



Launching new technological products and new high tech industries has become the common target of Guangdong, Hong Kong, and Macao in their efforts to deepen capital investment cooperation. All 3 regions are currently probing various forms of cooperation in these aspects. Some related persons have proposed economic and technical "unification" as a requirement of cooperation; perhaps this may be too difficult to realize due to the different systems.

As far as the 3 regions are concerned, the key factor for economic cooperation, is the demand for independence of the thousands and thousands of enterprises themselves. Related factions can only utilize appropriate and positive policies to guide these enterprises to adopt relatively clear-cut and far-reaching cooperative activities. As long as these activities can benefit the enterprises and promote further development, their progress will certainly not be in doubt.

There has been another proposal of establishing a scientific-industrial zone in Hong Kong by Guangdong and Hong Kong for joint development of new high tech products. This is indeed a positive proposal and its realization should be possible if both sides and all persons concerned give attention to it. There remains a shortcoming, however. If the scientific-technological zone is in Hong Kong, it would not be convenient for mainland economic, scientific, and technological personnel to attend cooperative events. If the zone is located in such a special district as Shenquan, Zhuhai, etc. it may benefit everyone concerned. On the one hand, these special districts enjoy advantageous conditions for launching new technologies or products (even more advantageous than Hong Kong and Macao in some aspects.) Inexpensive land and labor supply are plentiful in these special districts. Compared with Hong Kong, it would be much more convenient for mainland personnel to participate in all the cooperative activities. The practice of the policy of "introducing from the outside and connecting to the inside" by these special districts of the mainland will provide the function of "double radiation": scientific and technological capabilities of the interior are drawn to the special district while financial sectors of Hong Kong and Macao are provided with many targets and opportunities of cooperation at the same time. In this manner, the relatively well-equipped industrial bases of the interior may manufacture new products to provide comprehensive service and cooperation for Hong Kong and Macao.

Of course, if all 3 regions can simultaneously adopt more clearly favorable policies to establish coordinated institutions among peoples, to bring about and nurture deepened industrial cooperation, to jointly launch new products and develop high tech enterprises, the situation will be even more ideal.

(3) Concerted Steps in the Development of Tourism To Create Non-Trade Cooperation. For a long time, Hong Kong has had the fame of being the "pearl of the east,"

"buyer's paradise," "meeting place of eastern and western cultures," etc. and tourism has always been emphasized. In 1986 there were as many as 59 hotels with 2.34 million guest rooms. There were also comprehensive recreation facilities to attract 3.7 million tourists from overseas to produce an annual tourist income of HK \$17.86 billion. In 1987, there were as many as 400 million tourists. Tourism has not deteriorated in Macao either. It has long been an important pillar of support for the economic development of Hong Kong and Macao since the earliest times.

The area of Hong Kong and Macao is as small as a bullet and is deficient in resources, such a large tourist industry must be credited to its many favorable experiences and methods, which should be worthy of extension. Tourism has also been developing relatively fast in Guangdong in recent years and the success is inseparable from the learning from and cooperation with Hong Kong and Macao to enable Guangdong to construct tourist facilities to improve very rapidly its ability to greet overseas guests.

Continued cooperation with Hong Kong and Macao to develop tourism may further enhance tourism in all 3 regions. Although Hong Kong and Macao have put in much effort in pluralizing tourist interest in their regions, due to deficiency of natural resources, scarcity of historical relics, and a high proportion of artificial items, the possibility of development is always limited. Natural tourist resources are extremely rich in Guangdong; the weather is mild in all 4 seasons to allow tourism to be arranged without interruption. Along the 4,000 km coastline, there are many unpolluted bays, beaches, beautiful offshore islands. In Zhujiang and Hanjiang valleys, there are many renowned mountains, which are scenic sites, historical relics, and of archeological interest, including Luofu, Xiqiao, Tinghu, Danxia, etc. There are also many limestone caves for sightseeing and health purposes. Famous historical and cultural cities of Guangdong, Fushan, Chaozhou, and Meizhou have all had various degrees of impact on overseas regions. These places of tourist interest all have convenient transportation. In the future when the national government adopts more liberal and open policies toward Guangdong, being one of the experimental regions of national reform, these sites will be even more attractive to overseas persons who will come to Guangdong for trade and tourism in ever increasing numbers. Further development of Guangdong's rich natural resources of tourism to link it with Hong Kong and Macao to form a combined series of tourist items of sightseeing, excursions, recreation, culture, health care, scientific investigation, trade, etc. should compensate certain tourism deficiencies of Hong Kong and Macao.

At present, there remains deficiencies of development as well as utilization of the tourism resources of Guangdong. Many places are in need of being coordinated with necessary manmade items; service facilities are less than



complete, for lack of capital, technology, and management experience. As a start, through cooperation among Guangdong, Hong Kong, and Macao, a number of relatively high quality hotels have been built in Canton, etc.; rather satisfactory results have been obtained. In the future, further cooperation should be used to develop some special tourist lines to various regions of Guangdong and to make coordinated service facilities of these regions more perfect, to open up and increase new tourist sites and new items, to open new sources of overseas guests jointly, and to train expert personnel to help Guangdong to improve the level of tourism management and service.

The prosperity of tourism in Guangdong will not weaken the tourist industry in Hong Kong and Macao. On the contrary it will greatly benefit it. The events of the last few years have proved this to be a fact. Guangdong may participate in the construction of tourist items of Hong Kong and Macao to promote mutual benefit and joint development.

Tourism is an enterprise with a great future. According to a recent survey of a world labor organization, by 1990, there will be 4 to 6 hundred million tourists per year. By the year 2000, the trade figure of tourism and related industries will be greater than any other economic departments. Thus, it is possible to bring about more prosperity to the economy of the 3 regions through deepening their cooperation in the development of tourist industries.

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**Foreign Trade Reform Termed Key to Developing Export-Oriented Economy in Shashi**  
40060465 Beijing ZHONGGUO JINGJI TIZHI GAIGE  
[CHINA ECONOMIC SYSTEM REFORM] in Chinese  
No 6, 23 Jun 88 pp 29-31

[Article by Zhang Deguang 1728 1795 1639: "No Export-Oriented Economy Without Foreign Trade Reform"]

[Text] Adapt to the coastal economic development strategy and strive to develop an export-oriented economy. This is the approach Shashi must take to vitalize its economy. Shashi's plan to develop an export-oriented economy is to build on its foundation, do business directly with the outside world, import from abroad while cooperating with units in the interior, set up points along the coast, open up to the outside world, and take part in the great international exchange. How to implement the plan? In my opinion, we should zero in at the most critical point, namely the intensification of foreign trade reform.

### Foreign Trade System Must Be Reformed

The export-oriented economy is an open economy. Under such an economy, production is planned, circulation organized, and management conducted in accordance with the needs of the international market. Export is the key. It is export which completes the region's economic circulation and fuels economic growth through continuous economic interactions with the outside world. An export-oriented economy, therefore, is an economic system in which export growth serves as the engine of growth for the internal economy. It has three basic characteristics. First, its export-oriented economic operating mechanisms must synchronize with those of the international market. Second, the export sector must become the leading component of the industrial structure. Third, domestic production must directly relate to the international market.

The development of an export-oriented economy has made new demands on the foreign trade system. The current foreign trade system, with its fragmentation and monopolistic practices, is not compatible with the development of an export-oriented economy. Judging from the present state of foreign trade work in Shashi, all the foreign trade sector does is procurement and supply. It has no operational decision-making power. Among the major shortcomings of the existing foreign trade system are the following:

1) The fusion between government and enterprise functions in foreign trade departments. Instead of shaping the export plan in accordance with the needs of the international market, we determine export assignments based on domestic import needs. Instead of making economic efficiency our starting point, we let the amount of foreign exchange we have to earn decide what and how much to export. As a result, operators do not care whether they turn in a profit or lose money since the losses will be covered by the state. The upshot is a passive system in which the enterprise is dependent on the foreign trade department, and the foreign trade department is dependent on the state. Instead of an equal cooperative relationship between foreign trade enterprises and production enterprises, there are conflicting interests. To fulfill their assignments, the various ports try to beat one another by raising procurement prices and some slash prices to stay competitive, all typical of this kind of interest relationship.

2) Lack of understanding of the international market conditions. The foreign trade procurement system prevents enterprises from gaining direct access to foreign market information. It takes longer for goods supply companies in Shashi to get to know the market situation than units operated by the province. First of all, it is a provincial unit that negotiates with the foreign businessman. Then it presents the municipal goods supply company with an order plan or sends it a contract. The only way the municipal company gets to know market conditions is indirectly through the orders of the provincial

operating company. Since the distribution and sales personnel under the municipal Bureau of Foreign Economic Relations and Trade and their counterparts in the export production enterprises cannot directly deal with foreigners, these enterprises have no way of knowing how much the international market wants and in what design, variety, specifications, and quality. With the production enterprises uninformed and inadapted, an irrational export production structure and direction remain uncorrected for years.

3) Shashi hardly knows which commodities are sent to what countries. Little is known about the destinations of the exports Shashi sells to the provincial companies each year. After arriving at the provincial companies, Shashi exports are packed together with commodities from other localities and are all stored in the large warehouses of the provincial companies to be shipped to nations and regions with a demand for them by the companies in a centralized manner. If it exports to such and such countries, a provincial company claims in general terms that Shashi products are marketed in those countries. But in which markets are our products really competitive? What other new marketing channels can be opened up? That we know very little about.

4) No knowledge of the cost of earning foreign exchange. Foreign trade departments do not release export prices and the cost of earning foreign exchange to production enterprises. The divorce between production and marketing, between industry and trade, and between technology and trade deprives enterprises of information on comparative advantage, robbing export-oriented industries, trades, enterprises, and products of effective guidance. This is how foreign trade is conducted in Shashi at the moment. When a municipal company sends commodities to a provincial company, the account is settled in renminbi. When the provincial company ships the commodities abroad, the account is settled in foreign exchange. The provincial company converts the foreign exchange into renminbi and enjoys a subsidy based on the prices of the commodities. There is a time lapse between procurement and the earning of foreign exchange. An enterprise may finally get to know the overall cost of earning foreign exchange, but not the cost for a specific batch of merchandise. Some commodities have a low cost of earning foreign exchange, but the lack of such knowledge on the part of the enterprise prevents the latter from moving quickly to increase production.

5) No coordination between domestic sales and exporting. Shashi's major exports are textiles, which account for 68.4 percent of total procurement in value. Among the various categories of textile exports, cotton yarn and grey cloth dominate. In 1987, a total of 43.46 million meters of cotton cloth and 32.60 million meters of washed cotton cloth were procured in Shashi, 27.6 percent and 46.7 percent, respectively, of total output. Both cotton yarn and grey cloth are currently in short supply in China and in the city. Consequently, there is competition between the export and domestic sectors for

sources of supply. But given the divorce between production and marketing in the foreign trade system, the enterprises are wary of the ever-changing international market. On the one hand, they want to expand export production. On the other hand, they worry about losing the domestic market. The system makes it hard for the production enterprises to respond to the international market from a long-term strategic perspective and equally hard for operating units and enterprises to utilize the two kinds of resources and the two markets to increase production and coordinate resources. It also militates against the creation, development, and improvement of an export production system.

In short, the existing foreign trade system hampers our export drive and interferes with positive circulation. One cannot develop an export-oriented economy without ending monopolistic operations.

### **The Key to the Development of an Export-Oriented Economy**

The Shashi economy is in the midst of a transition from domestic to export orientation. To effect this transition, we must replace economic operating mechanisms first and foremost. Only by establishing modern commodity operating mechanisms consistent with international norms can the economy of Shashi be linked up with the international market, enjoy the benefits of international specialization, and truly become a part of the great international circle. Only then can Shashi's enterprises become independent commodity producers and operators, make technological progress amid fierce international economic competition, increase productivity continuously, and upgrade themselves. It must be noted that if the Shashi economy is to hook up with the international market, the "connector" has to be the development of foreign trade and international economic links. For this reason, the intensification of foreign trade reform holds the key to the development of an export-oriented economy.

To further reform the foreign trade system, we must begin by operationally hooking up the Shashi economy to the international market. Second, we must increase exports to earn more foreign exchange. By marketing Shashi products around the world, we can earn foreign exchange to pay for the necessary equipment, technology, and raw materials, which, in turn, will be used in the production of additional exports. And on it goes. The result is a positive circle which will drive the development of the entire Shashi economy. Third, we must let export determine production. In the past, enterprises exported what they happened to be able to turn out. Now we must do something different—produce and export whatever the international market wants. In other words, we must replace the old production-determines-marketing model with a marketing-determines-production model, plan production and organize exports in light of market needs, and lay the groundwork for an export-oriented economy. Fourth, the foreign trade sector must

make use of the existing advantages to serve production enterprises. It must liberalize operations, integrate industry with trade, join forces to face the world as one, increase exports, and stride onto the stage of the world economy.

To further reform Shashi's foreign trade system, the higher authorities have granted Shashi the power to import and export directly, giving the city an appropriate economic climate. This must be combined with other measures.

First, vigorously implement the contracted system of management responsibility. Ultimately, Shashi wants to separate government and enterprise functions in foreign trade, separate enterprise management from enterprise ownership, put export and import on a sound footing, and improve economic efficiency. Accordingly, it must meet difficulties head-on, take risks, and be a courageous pioneer by adopting the contracted system of management responsibility in the foreign trade sector and in export-oriented production enterprises. The development of an enterprise and the interests of its workers must be made contingent on how well or poorly it is run. At the same time, enterprises should be given more operational decision-making authority and an enlarged scope of business. To promote the growth of an export-oriented economy, enterprises should be permitted to do business boldly and confidently, free to adopt a multitude of forms such as share-holding, joint operation, futures trading, counter-trade, leasing, consulting services, and Sino-foreign enterprises of the "three capital sources."

Second, import from abroad, cooperate with units in the interior, and cultivate horizontal linkages energetically. We should waste no time in creating a regional foreign-trade economic network in Shashi. We should make use of import and export advantages and absorb products from the surrounding areas through preferences, economies, convenience, service, and other tools; energize business; and increase exports so that everybody has a role to play and develop together. We should also work hard to develop processing with materials provided, processing with samples provided, assemblage with parts provided, compensation trade, and other forms for both the domestic and the foreign markets, which would directly connect production enterprises with the foreign trade sector, foreign firms, and enterprises in other parts of the country, in order to increase exports and foreign exchange. In addition, we should plan and build an export commodity production system for Shashi and other localities with which it has ties. Available funds and material resources should be deployed to develop and build up a host of export commodity production bases and special factories and shops that are compatible with the needs of the international market, earn plenty of foreign exchange, and are quick to turn in a profit. They should be transformed into competitive and innovative economic entities combining production, operations, and scientific research.

Third, set up points along the coast, open windows to the outside world, and create a circulation system well suited to the export-oriented economy. Sino-foreign joint ventures may be established in the coastal special economic zone to do business with foreigners directly. Also, factories may be established jointly, relying on Shashi's export production enterprises and foreign trade enterprises and exploiting the resources in the neighboring areas. Their products may be sent to the coast for additional processing and then packed and shipped abroad. In addition, offices and factories may be opened in Hong Kong, Macao, and other countries. Trade offices may be set up to create a foreign trade network.

Fourth, strengthen the operating mechanisms of foreign trade and production enterprises. Within the framework of macroeconomic regulation and control, administrative departments in charge of foreign trade, departments in charge of production enterprises, and other comprehensive departments should continue to delegate authority and expand the decision-making authority of foreign trade and production enterprises in planning, self-management, distribution, and organizational set-up. Over time, these enterprises should be free to negotiate directly with foreign firms, close deals, sign contracts, and honor contracts.

Fifth, formulate coordinated policies that dovetail with foreign trade reform. For example, to speed up the development of Shashi's foreign economic relations and trade, we need policies to encourage the lowering of the cost of earning foreign exchange, reduce necessary subsidies for products that are big money-losers, stimulate exports over and above the base figure so that the enterprises would get to retain a bigger share of the foreign exchange earned, and give enterprises priority in the allocation of electricity, raw materials, packaging materials, and funds.

#### **Wanted: A Pioneering, Innovating Spirit**

The intensification of foreign trade reform and the development of an export-oriented economy is part and parcel of overall economic structural reform in Shashi. It involves every single sector and is a task to be undertaken by the city's entire populace. There should be a consensus and close coordination between all sectors.

First, leaders at all levels must instill a strong sense of reform and of opening up to the outside world. They should have the spirit and wisdom of an innovator and pioneer. They should copy the mentality of the people of Guangdong—"walk faster when the light turns green." Leaders at all levels should stand at the forefront of reform and release the immense energy of reform with their strong consciousness of reform and opening to the outside world.

Second, all quarters in society should coordinate their moves and work together with one heart to create a favorable business climate and the necessary conditions

for developing foreign trade. Every facet of foreign trade production and export, such as working funds, foreign exchange working funds, storage, transportation, communications, international accounts settlement, foreign exchange control, commodity testing, customs declaration, and customs examination, requires cooperation from every quarter for a smooth transaction. All enterprises and sectors involved should do their best and present a united front to the outside world in order to lay the groundwork for and serve foreign trade development.

Furthermore, we need to select qualified personnel to replenish and improve the foreign trade corps. The key to developing foreign trade and an export-oriented economy is qualified personnel. Foreign trade is quite demanding when it comes to personnel requirements. First of all, they must have extensive knowledge in economic theory, understand the relationship between production and trade, and are familiar with the economic trends in China, in the province, and in the city. Second, they must be equipped with special foreign trade knowledge, proficient in a foreign language, and well versed in marketing, foreign trade rules, the tariff systems, customs regulations, and commercial examination rules of various nations, as well as international foreign exchange remittance procedures. In addition, they must have commodity, legal, insurance, transportation, finance, accounting, and statistical knowledge. Third, they must be adept at collecting and utilizing economic information. Clearly, Shashi's present foreign trade corps falls short of the demand of foreign trade reform. Therefore, apart from stepping up training for existing personnel to upgrade their skills, we must look for qualified personnel in every sector all over the city and recruit qualified personnel from outside to reinforce our foreign trade corps.

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## LABOR

### Characteristics, Problems, Prospects of Burgeoning Markets

40060445 *Chongqing GAIGE [REFORM] in Chinese*  
No 3, 10 May 88 pp 126-131

[Article by Labor Market Discussion Group, Chongqing Academy of Social Sciences: "A Survey of China's Labor Markets"]

[Text] Labor markets are springing up and developing widely throughout the country's cities and countryside, especially in large and medium size cities. The purpose of this article is to mirror the present situation in the country's labor markets, to reveal the position and function of labor markets in the country's system reform and social transformation, and to consider in a preliminary way problems existing in the country's labor markets.

### The Burgeoning Labor Markets

China's labor markets sprang up in the wake of the Third Plenum of the 11th Party Central Committee. They sprouted along with rural contract responsibility systems, and they developed in concert with complete reform of the economic system that centered on cities.

In the beginning, labor markets had three distinctive features as follows. First, they formed spontaneously. Second, more than 90 percent of the markets consisted of surplus rural labor. In cities, market demand was primarily for domestic help and craftsmen; in rural villages (principally along the southeastern seacoast), it was for staff members and workers in township enterprises, and private rural enterprises. Third was differences in the "places of origin." Inland, the market appeared first in large cities, and in southeastern coastal areas (Guangdong, Fujian, Jiangsu, and Zhejiang Provinces) the market emerged simultaneously in cities and rural market towns. Initially, the situation of the country's labor market coincided completely with the situation in reform of the country's economic system.

As reform of the urban economic system spread, and the city and countryside commodity economy developed, the country's labor markets exhibited new distinctive features.

#### 1. Various Types of Market Models

China's labor markets currently consist of free markets and organized markets, publicly run markets and privately run markets, general markets and specialized markets, which overlap each other.

Free markets may be divided into visible free markets and invisible free markets. By visible free markets is meant that persons available to do labor gather spontaneously at labor exchange sites in streets and alleys. By invisible markets is meant job advertisements that are seen here and there, contacts through acquaintances, and labor exchanges run by brokers. The country's first kind of labor market, the free labor markets, have now greatly expanded their scope. Not only do they include the surplus rural workforce such as domestic help, craftsmen, and staff members and workers for township enterprises, but they also include urban workers who have resigned or retired, and young people awaiting employment in cities, as well as a small number of employed scientific, technical, and managerial personnel seeking additional work as advisors or consultants.

Organized markets includes both privately operated markets and publicly operated markets. Privately operated markets have appeared only in Guangzhou in the form of private "labor brokers." By publicly operated markets is meant labor markets under government leadership, which are of two kinds as follows. First are labor markets operated by labor administration units, or their subordinate labor service companies in all jurisdictions.

(In some cities, the domestic help labor market and the construction labor market are under the leadership of, or are operated respectively by the Women's Federation and construction administration and management units.) In principle this type of labor market does not cater to cadres in a broad sense who are seeking employment, and may be termed a general labor market. The second kind of publicly operated markets are the "skilled personnel exchange centers" that are run by personnel units in all jurisdictions. (In Shanghai, these are termed "skills banks;" in Shenyang, they are termed "skilled labor markets;" and in Xian, they are termed "skilled personnel intelligence markets.") In principle, these markets cater to cadres in a broad sense, and may be termed high-ranking labor markets (Currently, it is mostly intellectuals such as engineers and technicians, and teachers who register and are exchanged in these markets.) In addition, all publicly operated labor markets may be divided in terms of their exchange methods. They may be divided into advertised markets and unadvertised markets. The former are found in inland China in places such as Xian, Chongqing and Shenyang, and the latter are found in southeastern coastal areas such as Shenzhen and Wuxi. The reason for this distinction is that the commodity economy of inland China is not well developed, so there is a lot of pressure to find employment there. Advertising of markets increases the attraction and the ability of markets to handle labor exchanges, thereby increasing the number of market transactions. Currently, publicly run labor markets are, first of all, under leadership of, or operated by, labor or personnel units; second, they pay close attention to workforce statistics and the compilation of data (including the building of "skilled personnel banks," "labor resources banks" and market information networks); and third, they are responsible for registering and exchanging a large volume of both local labor and labor from elsewhere, and for organizing the dispatch and the importation of labor. They play a major regulatory function and cover a wide range of activities; they have become the main form of the country's labor market.

The general market is oriented toward the open labor market in each community, and in society as a whole. The above-mentioned labor and personnel units function as representatives in running both the general labor markets and the high level labor markets. Specialized markets consist primarily of household labor markets, social labor markets, rural construction gang markets, technical worker exchange markets, and markets for staff members and workers who have resigned or retired. In some cities and districts, some of these markets are a specialized part of general markets. In addition, as part of the enlivening of permanent positions for staff members and workers, the Chongqing Municipal Machinery Bureau is trying out an "industry market." (This is open only to those within the system, and helps business labor groups within the system, and the evening out of surpluses and shortages in workforces.)

It is worth noting that wherever there are general labor markets or specialized labor markets operating under government leadership, there have been new trends of development.

One is new splits and consolidations. First, an overlapping is taking place in general labor markets and high level labor markets. The point of overlap is exchanges of the "five university students" (namely, television university, correspondence university, staff member and worker university, publications university, and self study university students), exchanges of technical workers, and exchanges of staff members and workers who have resigned or retired. Second, new splits and consolidations have begun in ordinary general labor markets and ordinary specialized markets, examples being the Yuanbei District "labor market" and the Beilin District "labor market," which are ordinary labor markets of the general type. Today, the former is evolving into Xian's exchange center for technical workers, while the latter is evolving into Xian's social labor exchange center. Conversely, certain formerly independent specialized markets and domestic help markets in cities, including both those that formed spontaneously and those that operate under government leadership, have evolved into general labor markets or social labor markets. Analysis shows most of these changes to be closely related to the make up of local industry and the make up of the workforce in the places in which the markets are located.

Second is movement toward systemization. Currently, in places where labor markets got off to an early start, and particularly where labor markets under government leadership began somewhat earlier, a labor market system is in process of formation, with some being substantially complete. In Xian, for example, where only labor markets under government leadership exist, namely at the several levels of the city, districts and counties, streets, and township and towns, each has a different emphasis or division of labor, and all are competitive and coordinated. Because of their high responsiveness to information, their strong regulatory function, and their broad coverage, the labor market systems of various forms and at various levels in some major cities have forged links that transcend regional or municipal lines. For example, the Xian market has arranged with the Chongqing market for the importation of household help; the Guiyang market has sent workforces to coastal markets, etc. If this goes on, foreseeably it will take only a few years for a multiform, multilevel, completely open network-type labor market system to take shape in China.

## 2. Flexible and Varied Exchange Methods

Generally speaking, the methods that labor markets use to effect labor exchanges are transfers, temporary transfers, posting to two positions at the same time, advertising job vacancies (in newspapers), and employment (following on-the-spot demonstrations and testing). The services that labor markets supply include providing

supply and demand information, providing places where discussions may be held and exchanges made, handling of registration and exchange procedures, organization of the dispatch and the importation of labor, conducting various kinds of labor training (both training in general, and training on behalf of others), as well as employment counseling, job introductions, and organizing intellect (such as the "braintrust spheres" and the "Sunday engineers" that Xian has organized that remove problems and relieve worries of a technical and administrative nature for users). Forms of exchange include exchanges of ordinary workers, and contracting for labor and technical workers; and exchanges of skilled personnel and intellect (with no change in the administrative status of the skilled personnel concerned). In terms of time, there are day-to-day exchanges and mass meeting exchanges. (In coastal markets, day-to-day exchanges are used; in inland markets, a combination of the methods is used, day-to-day exchanges predominating.) In short, these market exchange methods show a higher number of transactions, greater satisfaction on the part of both the employer and the employed, and better economic and social results than the traditional labor personnel system of centrally made assignments.

### 3. Flows in Two Directions and Two "Hot Spots"

There is currently a trend toward flow in both directions in China's market labor forces. By this is meant a reciprocal flow between city and countryside, among large, medium and small cities, between developed and backward areas, and between different systems of ownership. In Guangzhou and Wuxi, for example, a substantial amount of the workforce has flowed into enterprises in the suburbs, in townships, and in towns. In Shenyang and Xian, a small number of engineers and technicians from large and medium size state-owned enterprises and scientific research institutes have flowed toward collective enterprises both inside and outside the cities, and into township and town enterprises. Thus, the direction of flow for workforces in the country's labor market is not only from rural villages to cities, from small cities into large and medium size cities, from border regions to inland areas, from backward areas to developed areas, or from collective units to state-owned units. There are four main reasons for this. First is preliminary reform of the system for using labor in cities; second is the weeding out function of the market mechanism; third is the higher compensation for labor that is paid by collective, township, and town enterprises; and fourth is the different value concepts and the different job choices of workers.

In terms of the volume of flow in space, there are two obvious "hot spots" at the present time in both the direction and volume of flow in the country's labor market. These are large and medium size cities, and economically developed rural villages along the southeastern coast, with movement within and across regions. This is not a blind movement by any means, but rather a spontaneously induced result of the development of economic and social "hot spots" in which one is able to

make more money and in which life is richer. In addition, the surplus labor in villages in backward areas can learn skills, broaden their outlook, and accumulate funds in such places. This is yet another important reason for the formation of "hot spots."

### 4. Movement Toward Systemization and Legalization

A survey of labor markets in Shenyang, Xian, Chongqing, and Guiyang shows that the governments in all four cities have promulgated "Temporary Methods For Administering Labor Markets." The governments and departments concerned have used these regulations as a basis for promulgating either specialized methods or temporary regulations. These methods or regulations have already had a bearing on the labor market system (leadership system, organizational system, and institutional character), on exchange policies, labor relationships, and labor arbitration. This shows that the country's labor markets are moving in the direction of becoming systematized and legalized.

#### Incomplete Function and Shock Reflex

The basic function of labor markets is to use open competition to regulate the distribution and employment of labor resources. This function cannot be performed without the use of wage levers. However, at the present time, the function of China's labor market in regulating the economy is still incomplete.

First, its scope is too narrow. Just three kinds of persons are the main subjects of labor market regulation today, namely the surplus rural workforce, young people awaiting employment in cities, and staff members and workers who have resigned or retired.

Second, its function is incomplete. This is demonstrated conspicuously in the reallocation and transfer of staff members and workers where a need to reduce personnel exists but there is no place for them to go. This state of affairs frequently means that many people register but few transactions are concluded in the labor market. Even in the case of transfers from large cities to small cities, from state owned municipal units to collectives, and voluntary transfers from street enterprises to township enterprises, in most cases negotiations are successful, but the transfers fail. The reasons still lie in the administrative system.

China's labor markets have developed out of the weak link in the traditional labor personnel system. It is willing to play a "support" role in labor flow. As the antithesis of the traditional labor personnel system, China's labor markets also both issue challenges and use a "shock reflex" to strengthen their own function and develop their own area of regulation.

**1. Generally Developed Technical Exchange.** In this market, except for a small number of people who receive official permission to transfer, most people in the same

industry transfer temporarily, are hired, serve in concurrent positions, or are contracted for technical work. Thus, the workforce belongs to a department or a unit in name, but the labor and the skills have been able to move.

**2. The Emerging Exchange of Intellect.** In view of the "difficulty of moving skilled personnel," various methods whereby intellect can flow without any movement of skilled personnel have come about in high level labor markets in one large city after another. In addition to a person holding more than one position at a time, temporary transfers, and concurrent hirings, personnel employed in labor markets have more and more resorted to the organization of intellect for spare time work.

**3. Standards For Hiring Workers and Hiring Cadres Enter the Markets.** Xian and Shenyang have begun to include in employment markets the graduates of the "five bigs," non-resident students in institutions of higher learning who pay their own tuition, and graduates of vocational senior middle schools, none of whom are subject to assignment to jobs by the state. They have also applied standards for the hiring of workers and cadres to the market, and have instituted contract systems. In addition, some cities no longer prescribe proportions for internal hirings and external hirings in assigning hiring norms. Everything is oriented toward society, to carrying out market hiring of labor, and to selectivity in admissions, thereby thoroughly demolishing the cadre system's "three track system" for workers, peasants, and cadres, and lifelong tenure for cadres.

**4. Assault Against the Traditional Wage System.** Virtually without exception, a market wage, i.e., a labor price form, has been adopted for the exchange of all kinds of labor, market competition thereby becoming a part of wage distributions. In 1987, the Shenyang, Chongqing, and Xian labor markets showed per capita monthly wages ranging between 50 to 200 yuan. Traditional wage distributions were, in fact, equal distribution, and this form of distribution has yet to be fundamentally touched. Now that market competition has penetrated the distribution of wages to permanent staff members and workers, it shows the way to complete reform of the traditional wage system.

**5. Assault Against the Prevailing Education and Training Systems.** China's educational and training structure and its teaching structure are currently divorced from the needs of society. It is for just this reason that not only training for employment, and training for change in employment is given, but "extra" training (further training of those who hold diplomas) is also given. All have become important associated links and ingredients of the labor market. To a very great extent, this requires that the educational and training structure be made into a structure that meets the needs of society.

**6. A Challenge to More Thoroughgoing Enterprise Reform.** One difficult problem that continues to exist in reform of the country's economic system is how to establish and perfect a business management system that simultaneously gets rid of "short term behavior in enterprises." If, simultaneous with the spelling out of enterprises' (state enterprises) property rights and assigning personal responsibility for the operation of enterprises' assets, we make market competition a part of the duties of plant managers, directors, and the staff members and workers in enterprises when they are employed and during their employment, enterprises' "short term behavior" may disappear, and a business administration mechanism may come into being.

**7. All Out Assault on Old Ideas.** The development of the country's commodity economy that has taken place cannot but have exerted a subtle influence on people's ideas. Practice has shown that the faster a commodity economy develops, and the sooner labor markets are opened, the more completely is the concept of holding out an "iron rice bowl" changed. This concept is replaced by concepts of competition, of time, of creativity, a realistic approach, and a spirit of self-improvement.

#### **The Problem of Apparent and Potential Obstacles**

In an overall sense, China's traditional labor, personnel (cadre), and wage systems have been the three major obstacles to development of the country's labor markets. Rapid spread of reform of these three major systems has been the key to development of the country's labor markets, and it is also the focus of the current thoroughgoing reform.

There are other apparent and potential problems that have a bearing on the country's labor markets.

**First is the ideological understanding problem.** Paramount is the apprehensions of some cadres and the public that the opening of labor markets may mean that laborers will lose their position as masters. Such apprehensions make a certain amount of sense. However, the question of having or not having a position as master, and of being or not being exploited is not a matter of whether one was employed through a labor market, but rather to whom ownership of the means of production and surplus labor in the unit in which one is employed reverts. Surveys show that not one of the staff members and workers who found employment through the labor market in state run or collective enterprises feels exploited within the enterprise or a loss of position as master. Likewise, everyone who became a hired hand or a helper in a private business through a labor market acknowledged that he or she was exploited, and they realized that they were not masters of the enterprise. Confusion in ideological understanding has led to all sorts of misgivings and vacillation about the opening of



labor markets in some places and some units. This shows the need for theory and propaganda to keep pace with or even to precede the opening and developing of the country's labor markets.

**Second is the problem of the form of the market system.** In China today, without exception, the administrative functioning of labor markets that are under government leadership comes into conflict with the mechanism of municipal markets. The crux of this problem lies in the ill-defined jurisdictional boundaries among labor (or personnel) administrative units, their labor service companies, and labor markets. The reason for this situation is that labor markets under government leadership, or labor (and personnel) administrative units in each jurisdiction are run directly, or that labor service companies under labor administrative units are directly run.

**Third, workforce supply is greater than demand.** In China today, the focus of conflicts in the workforce market is on the flow of workforces toward two "hot spots," namely city markets and rural markets in economically developed areas. In some developed areas such as Suzhou, Wuxi, and Changzhou, a glut has taken place as a result of the large influx of workers from outside. It seems that unemployment in China will be a long-term, serious problem.

**Fourth is movement and control of labor markets.** The current flow of the workforce toward two "hot spots" produces both positive and negative results. The entry into cities of large number of the rural labor force solves the problem of the cities having no one willing to do dirty, hard, and tiring work. At the same time, it intensifies a series of urban social problems such as traffic congestion, labor disputes, and social morality. These problems show up strongly as the country's workforce flow toward the two "hot spots." Some signs indicate that some places plan to use administrative measures to carve up and monopolize labor markets.

**Fifth is labor prices and wage inflation.** When labor markets first open up and develop, objectively a situation comes about in which market wages and traditional wages exist at the same time. This enables permanent staff members and workers as well as staff members and workers who have resigned or retired to have access to dual channels of wage income, taking either their original wages or the market wage. When two forms of wage distribution exist at the same time, inevitably a duplication of wage income and extra income paid for expenses occurs, thereby leading to inflation of and lack of control over macroeconomic consumption funds.

Finally, the labor markets have raised problems for labor arbitration, social insurance, and for housing and childrens' education following the movement of workforces.

### Thoughts About the Development of Labor Markets and Choices Available

The opening and development of the country's labor markets, and the building and perfection of this market system is inevitable. We would like to propose several choices for consideration to deal with obstacles and problems that labor markets face.

**1. Reform of the Permanent Job System and the Personnel Cadre System.** Inasmuch as the "shock reflex" of labor markets has already rocked the permanent job system and softened the personnel cadre system, we believe the time has come for further reform of the permanent job system and the personnel cadre system, and that reform of the extent of employment and the wage system should be done hand in hand. The model to be aimed for may be capsulized as "competitive employment and market wages". This should form the basis for effecting a simultaneous change in the way in which labor resources are placed and the way in which wages are distributed.

**2. Selection of a Market System Pattern.** Currently, the role of labor markets as mechanisms under government leadership is intertwined with administrative functions. This is not desirable, nor is it in keeping with the policy of "the state regulates the market, and the market guides enterprise." Though administrative functions genuinely played an active role during the early stages of labor markets, in the already opened labor markets, administrative desires cannot be imposed, nor can administrative functions permeate. In China, the labor market system should be task oriented and service oriented. Labor markets should be responsible principally for registrations and exchanges, for employment counseling, and for finding jobs. Labor markets of different types and at different levels should act as partners on an equal footing and competing jointly. It is necessary to follow the principle of "the state regulates the market, and the market guides enterprise" to smooth relationships among labor personnel units, their subordinate labor service companies, and labor markets. The key to achieving this lies in a change in the functions of labor personnel units, and organizational reform. Second, it is necessary to clarify the mission that is to be served by the continued existence of labor service companies belonging to labor units. Should or should not such organizations, in which political, business, and work functions are combined, make a transition from the function of controlling labor markets to becoming "regulatory"? If so, there should be a clarification of their functional boundaries as well as those of labor personnel units, labor markets, employment training centers, and even civil government departments.

**Third is unemployment choices.** In China, where the size of the workforce greatly exceeds demand, unemployment is unavoidable. Faced with this reality, there is a choice of only two roads, either unemployment on the job or unemployment as a result of competition. Practice



has shown selection of the first to be unworkable. When the second is chosen, the merciless market poses risks and a certain amount of threat for people. Nevertheless, theoretically speaking, a certain amount of unemployment is a common outgrowth of both socialized large scale production and a commodity economy. Thus, it is inevitable and normal. Socialized large scale production determines the industrial structure, the technical structure and the production structure in a dynamic process of development, and a commodity economy accelerates changes in the structure of this system. This decides, in turn, the readjustment, composition, and renewal of the workforce in the course of movement. Thus, unemployment of a structural, technical, frictional, or seasonal nature is bound to exist. Cognitively speaking, unemployment that results from competition does not mean that certain people will be out of work for a long period of time. Except for the totally indolent, willingness to try to get ahead is all that is needed and there will be numerous employment opportunities. In this sense, a certain amount of unemployment is actually a price to be paid for improvement of the quality of individual workers and for social progress including the integration of fairness and efficiency, motivation and coordination in society. In a practical sense, the economy of China's cities and countryside is a classic "dual structure." The rural economic level is lower than that of cities; nevertheless, cities are, without doubt, a huge "attraction" for excess rural labor, and they are able to assimilate large amounts of such surplus labor. Moreover, cities surplus labor goes to township and town enterprises in what is, in itself, employment of a technical nature. The development of peasant vocational middle schools (such as was done in Ba County in Chongqing), and the operation of peasant technical training programs are also effective ways in which to solve the surplus rural labor problem while developing township enterprises at the same time. In addition, the export of labor can be organized (only urban labor may be exported at the present time). Therefore, in making a choice between unemployment on the job and unemployment resulting from competition, China can choose only unemployment that results from competition, which is also more workable.

**Fourth is choices for macroeconomic control of the workforce.** This problem is, in essence, as follows: Faced with the flow of the labor force to the two "hot spots," should we select administrative methods to block it or should we select indirect methods of channeling it? We believe the latter to be the proper choice. The reason that surplus rural labor from China's backward areas flows into large and medium size cities and into economically developed rural villages like those in southern Jiangsu is that, comparatively speaking, large and medium size cities are financially and technologically intensive. Southern Jiangsu is financially intensive. The most effective way to avoid the movement of the workforce into "hot spots" is to develop lateral investment and finance capital.

**Fifth is the choice of wage funds controls.** The simultaneous existence of two forms of wage distribution has brought about an inflation of and loss of control over

wage funds. How can macroeconomic wage inflation be controlled? We believe that the key lies in doing all possible to shorten the time required for a change over from the traditional wage system to the market wage system in order to avoid the long-term co-existence of two forms of wage distributions. Were a single market wage system to be instituted, it would be difficult for wages to inflate. First of all, in theory, market wages are actually marginal wages that have as their premise insuring maximum profit. They are determined by competition between the two groups that supply and need labor, within the supply group, and within the demand group. No single party can cause a rise or a decrease in wages. Second, in practice, there is a sharp conflict in China between the supply of labor that is larger than the demand for labor. Wage levels in a "buyer's market" positively cannot be jacked up.

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#### **Labor Composition Seen Factor in Thorough Enterprise Reform**

40060478 Beijing *BEIJING RIBAO* in Chinese  
24 Jun 88 p 1

[Article in "Beijing Moves Ahead Amid Reform" column by Liu Zongming 0491 1350 2494 and Yu Fei 0060 7378: "A Breakthrough Point in Furthering Enterprise Reform—Comments on the Efforts of a Group of Beijing's Industrial Enterprises To Improve the Labor Composition"]

[Text] National wealth depends on the economic performance, and the people's prosperity also depends on the economic performance. The whole foundation and purpose of our reform is, of course, to improve the economic performance.

Improving enterprise economic performance is, in turn, the key to improving national economic performance.

In the 9 years of reform and opening up to the outside world, Beijing's industrial system has continued to push forward the reform process by centering on efforts to simplify administration and delegate authority, promote the factory director's responsibility system, practice a variety of contracted management responsibility systems, implement reform in the distribution system, and popularize the leasing, stock ownership, transfer, and auction systems. These reform measures have been very successful. The municipality has gained significant economic strength. The growth of its productive capacity has been robust. Its economic performance has continued to improve, and the workers' living standard has also improved.

But, one problem continues to plague us—enterprises remain overstaffed. The burden of "five people doing three people's work" weighs down on enterprises, preventing even better economic performance.

Worried and disturbed, study and ponder, explore and try.

What is truly exciting and encouraging is the realization that some enterprises in the city have found the breakthrough point to further the industrial enterprise reform process by improving the composition of the work force.

According to statistics, at present, a total of 961 enterprises operated by the 16 municipal industrial companies (bureaus) have completed a pilot program to improve the composition of the work force. Of those, 44 enterprises, or 4.6 percent, have obtained initial results. The pilot program affects 50,641 staff and workers, 4.6 percent of the entire labor force in the industrial system. Among these enterprises, the Beijing Number Two Automobile Manufacturing Plant, the Beijing Pharmaceutical Plant, the Beijing Number Two Coal Plant, the Beijing Metalworks Arts and Craft Factory, and the Huabei Optical Instrument Plant have found the ways and discovered the effective measures.

Their first target of attack is the "three irons"—"iron rice bowl, iron armchair, and iron wages." The Beijing Number Two Automobile Manufacturing Plant has combined structural reform, personnel reform, reform in the hiring process, and reform of the allocation system under one process. It lets the amount of work determine the number of posts which in turn determine the number of workers. It has implemented a system of self-recommendation to select workers from inside and outside the plant, and only the most qualified workers are assigned posts. The staff has been carefully trimmed to 1,241 workers, and this is a change from the past "tight first line, slack second line, and bloated third line" situation. The Huabei Optical Instrument Plant stands behind the principle of full workload method and "let the amount of work responsibility determine the positions, and hire workers based on the job requirement." It has reversed past practices of creating jobs for the workers and hiring more hands than needed. More than 1,900 workers, 74 percent of the total staff and workers, have been affected by the reform. Beijing's Number Two Coal Plant, besides implementing measures to improve the labor composition and putting the permanent staff and workers under labor contract management, has also opened a bank inside the plant, abolished the graded wage system, and set up a job performance wage system which is primarily a job-based wage system. It has smashed the "iron rice bowl" and at the same time stopped guaranteeing "iron wages." The Beijing Pharmaceutical Plant has introduced competition into personnel management and has installed a system of public hiring among its more than 600 cadres and has removed, after careful screening, 30 percent of the mid-level cadres and 46 percent of the ordinary cadres. Cadres who have been removed are no longer entitled to cadre wages, and thus the "iron armchair" has been removed.

The improved labor composition has gradually become a dynamic composition. The improved labor composition is not meant to be perpetual. Workers who fail to

complete their assignments on time must step down, and those with improved operating skills and improved work attitude can be reinstated. The Beijing Number Two Automobile Manufacturing Plant has set up an internal labor market as well as a permanent "standby" employment office. In the past few months, more than 20 workers who had been assigned jobs have been returned to the "standby" list. Several other plants have set up similar organs and internal labor markets. These efforts not only have eliminated the "iron rice bowl," they have also imparted a new concept and a sense of jeopardy and urgency among the workers and have increased their initiative and motivation, thus ensuring better enterprise performance.

In the past, it was the factory director's problem to figure out what to do with the personnel who had been removed from their posts after labor reorganization. Through the efforts of these 44 enterprises, we have gained experience. This year, Beijing's effort to improve the labor composition aims to recirculate the work force within the plants. Some surplus workers will be transferred to tertiary industry and other areas, but a portion will be kept as standby workers. If these workers' work attitude and their operating skills improve, they will be rehired. Those who have been assigned jobs but failed to fulfill their work quota may be dismissed any time and be put on the waiting list. This kind of dynamic labor composition is, in fact, a major breakthrough in the implementation of contract management of the people's permanent work system.

Naturally, a task as important as improving the composition of the work force cannot be accomplished overnight. Getting started is always difficult, but once we have a beginning, success is within reach.

At a news conference on the 22, Yan Chengzong [7051 2110 1350], chairman of the Municipal Economic Committee, announced that promoting the improvement of labor composition will be the municipality's breakthrough point for furthering the industrial enterprise reform this year.

Reportedly, besides the 44 enterprises which have completed the pilot labor composition improvement program, 154 other enterprises are still in the midst of their programs, and another 220 enterprises will soon be joining the effort. It is estimated that within this year, 43 percent of the municipality's enterprises and more than 64 percent of the staff and workers will participate in efforts to improve the labor composition. The ice has been broken; the way has been cleared. There is hope for tomorrow.

## POPULATION

### Analysis of Characteristics, Problems in National Situation

40060488 Beijing RENKOU YU JINGJI  
[POPULATION AND ECONOMICS] in Chinese  
No 3, 25 Jun 88, pp 6-10

[Article by Wu Cangping 6762 3318 5493 and Xiong Jiying 3574 0679 3853, Population Theory Institute, Chinese People's University: "Further Understanding of Population Characteristics in the National Situation"]

[Text] One major ideological theoretical, and political contribution of the 13th Party Central Committee was that it proceeded from realities as they exist in the country to make it entirely clear that China is currently in the initial stage of socialism. Its report provided a profound analysis from various angles of the national situation in terms of its economy, culture, society, and population.

The 13th Party Central Committee report discussed the population problem as an important part of the country's national situation. The report referred either directly or indirectly no fewer than 20-odd times to the size and make-up of the country's population, to population and natural resources and the ecology, and to population and socioeconomic development, as well as the importance and urgency of present efforts to control population. Not only did the report reiterate that the base figure for the population is large and the country's accumulated wealth slight, as well as the importance of intensifying planned parenthood work and controlling population increase, but it also referred several times to changes in the make up of China's population and industry, changes in urban population shifts, and the importance of improving population quality, and the quality of the labor force during the initial stage of socialism. The report also raised for the first time the need to devote attention to the rapid aging of the population, a new problem that has risen in the age structure of the country's population. Serious study and understanding of the report's explanation of the country's population problems and their characteristics can enable us to more fully, systematically, and thoroughly understand the reality of the population situation and the true nature of the problem.

The phrase, "large population base figure, rapid growth, and a young age structure" has been used for quite some time to sum up the character of China's population. This capsulization has gained general acceptance among demographers. It must be admitted that this depiction is scientific, and though it cannot fully depict the character of China's population, it does provide an objective basis for the practical necessity and urgency of vigorously controlling the country's population growth. It should be pointed out at the same time, however, that the foregoing

capsulization is limited to natural changes in the country's population, but does not touch on either the quality of the country's population or population distribution.

"A large population base figure, rapid increase, and a young age structure" as features of the population are an outgrowth of the country's specific historical conditions. First of all, the population that the country has inherited is a huge population of the world's most populous country. We have accepted this as an established fact, and are powerless to change it. The social stability, rapid economic recovery, rise in the people's standard of living, and improvement in health following liberation caused a rapid decline in the country's mortality rate. However, China's new democratic revolution was carried out amidst semi-colonial, semi-feudal, and backward economic and social conditions. Consequently, old ideas about childbearing continued to be sustained and carried on. It was not easy to change them at once as the mortality rate declined. Thus, a high birth rate, a lower death rate, and high natural increase finally replaced the high birth rate, high death rate, and low rate of increase that had historically characterized reproduction in China. The increased changes resulting from the "time difference" between the decline of the death rate and decline of the birth rate was bound to produce an ever younger population. This is the type of population that exists universally in modern developing countries, and it is termed "quasi-transitional" in demography. It was this situation that brought about the large population base figure, the rapid increase, and the young age structure that characterizes the population. Clearly, the changing roles of new and old productivity, and replacement of the type of population reproduction were objective mechanisms operating in the aforementioned character of the country's population.

Inasmuch as the character of China's population is an outgrowth of certain historical conditions, as socioeconomic conditions changed, the character of the population was bound to undergo change as well. In particular, since the vigorous advocacy of planned parenthood during the 1970's, China birth rate fell precipitously, and changes in the character of the population became particularly apparent. Given these new circumstances, continued use of the past characterization of "a large population, rapid growth, and a young age structure" to capsulize the current character of China's population not only cannot reflect present objective realities, but may lead to erroneous policy decisions as well.

First of all, the character of the population is the most apparent and most conspicuous feature of a country's population. It is the element to which priority consideration must be given when economic and other policies are formulated. It is for this reason that continued use of already passe or changing characterizations that are no longer of greatest importance may create misconceptions. This may make it impossible to solve problems or

to provide policy makers with accurate data for reference, and may also prevent the country from setting priorities and preparing plans that take all factors into account in solving the population problem.

Second, the characterization of the country as having a "large population, rapid growth, and a young age structure" is limited to the character of natural changes of a quantitative nature such as population size, births, deaths, and population increase. It has no bearing on various other characteristics of the country's population such as population quality, the urbanization of the population, and the aging of the population. This means that such a characterization applies to the important task of controlling population size, but has no bearing on other features of the country's population. But these features must also be placed on today's agenda. It has to be realized that objective conditions in China have changed, and that though control of the size of the population remains the core of the country's population problem, the three step program for economic takeoff also poses new demands and responses from every quarter on population. For example, it poses new requirements with regard to the quality of the workforce, shifts of the agricultural population, and changes in the structure of industry. A new social development strategy also requires the coordination of all aspects of population with socioeconomic development, and poses objective requirements as well on a rational age structure within the population. Clearly, these circumstances require a fuller, more profound, and more accurate understanding of the character of the population. This is yet another important reasons why we have raised the matter of a further understanding of the country's population situation.

In view of the guiding thought about renewed understanding of the country's population situation raised in the 13th Party Central Committee report, we believe that the capsulization of the character of the country's population may be supplemented in the following ways. The population base figure is large and density is high, population quality is low, the population is changing rapidly, there is a great potential for a shift of population from townships and villages to cities and towns, the population is aging rapidly, and there are great differences in population from one region to another. That the population is not evenly distributed is a well known fact, and it is also a general phenomenon that applies to the population of numerous countries. However, objective criteria are lacking for determining even distribution; therefore, this cannot serve as a characteristic to be highlighted. This article intends to explain some of these features of China's population.

### **1. Large Basic Population Figure and High Population Density**

A large population base figure is an established fact about the country's population, and this is a major feature that will endure for a long time to come. In 1987,

the country's population reached 1.07 billion, having nearly doubled in somewhat more than 30 years. Furthermore, the population is continuing to grow. It is estimated that it will not stabilize until around the year 2040, by which time the the total population of the country will have reached a maximum of approximately 1.4 billion according to estimates of most Chinese students of demography. Such a large population figure would be a heavy burden for any country in the world. At the present time, China's population averages 110 people per square kilometer, which is three times again as much as the world average density. It is due to reach 150 people per square kilometer. The 13th Party Central Committee Report referred to this fact in numerous places, and it also pointed out that, "In a country such as ours with a huge population and a backward foundation, providing ample food and clothing, and living and working in peace and contentment is, without doubt, both a magnificent achievement and an arduous undertaking."

The country's large population base figure and the high population density have greatly increased difficulties in getting rid of poverty and removing backwardness step by step during the country's initial stage of socialism.

First, the large population results in overly low per capita norms in every regard. This is the so-called "denominator" function. Both the country's non-renewable resources and its per capita amount of cultivated land are very low. The amount of cultivated land per capita of China's agricultural population is 0.5 percent that of the United States, 2.5 percent that of the USSR, 31 percent that of India, and 14.4 percent that of Brazil. It is even lower than for countries having a land area that is much smaller than China at 2.1 percent that of the United Kingdom, 12.5 percent that of Romania, and 34.8 percent that of Japan. China has a vast land area and fairly abundant natural resources, such as coal and iron ore for which reserves are among the largest in the world. However, in per capita terms, China lags far behind.

Second, China's huge population is at variance with its insufficiently developed economy. Such an unbalanced combination augurs poorly for both a turn for the better in the population and the economy. It has been found that a series of economic premises must be present for the national of any developing country to develop. These include a certain amount of accumulation, a certain amount of foreign exchange reserves, and an agricultural population that is not too large a percentage of total population, etc. The large size of China's population militates against each of the above conditions. Therefore, the absolute amount of the population alone is a serious impediment to the country's economic takeoff.

Third, a balanced ecosystem is the most important material foundation for insuring the development of productivity and population growth. Though population inflation is not the sole reason for ecological imbalance and environmental deterioration, it has intensified the

pace of ecological and environmental deterioration, and has increased pressure on the ecological environment. It has also added new pressures to the already daunting task of cleaning up the ecological environment, and has made the task of restoring a benign cycle in the ecological environment much more arduous. For this reason, the 13th Party Central Committee report stressed this problem in particular, pointing out that "population control, environmental protection, and ecological balance are important issues having a bearing on the overall development of the economy and society." While forging ahead with the building of the economy, all natural resources must be energetically protected and rationally used. Efforts must be made to launch a complete clean up of environmental pollution, and to intensify protection of the ecological environment linking together economic, social, and environmental benefits."

Fourth, the large population base figure also means an increasingly large amount of the population with various needs is entering each age group. Population figures for every age group are huge from the new born to the aged. This puts heavy pressure on, or may even cause a shortfall in satisfaction of, the needs of all age groups, such as health care for infants and children, general education, homes and jobs for newly married young people, and society's care of the elderly. For example, in 1963, 320,000 children were born in Beijing. In 1970, this group of children reached primary school age, forcing Beijing schools to go on a two-shift system. Thus, we have to make a greater effort and pay a higher price than other countries to meet the needs of any age group. Take just the workforce population, for example. Because it has grown too much and too fast, putting pressure on society, difficult employment problems have arisen. In addition, it will occasion complex problems for the vocational structure, and for the employment system. It has been estimated that by 2000 the working age population will be greater than 800 million. This figure will be equal to the sum of the first world and the second world populations.

Fifth, some people compare China's population to a gigantic snowball, which rolls forward slowly, but whose volume swells frighteningly. This is to say that because of the large population base figure, even if the speed of population growth is very slow, more than 20 million people will still be born each year, and the impact of the growth will still be extremely strong. China just happens to be at a childbearing peak at the present time. It is imperative to continue stringent control over population growth, to intensify planned parenthood, and to stabilize the country's population rapidly.

## 2. Rapid Changes in the Population

So-called rapid change in population holds two connotations as follows. First, it means the change from the pre-liberation high birth rate, high death rate, and relatively low speed of growth to the pre-1970's quasi-stable population high birth rate, low death rate, and high

natural increase. Second, it means the transition from the quasi-stable state to the present modern type of reproduction characterized by low birth, low deaths, and a low natural growth. The first change includes a rapid growth of population. However, rapid growth alone cannot explain the country's entry into the second change. The first kind of change takes place in virtually all developing countries, and the second kind of change (a change in the birth rate) begins to take place only after a developed country has gone through about 100 year's time. By comparison, it took only several decades for this change to take place in China. During the early 1970's, China's death rate fell from 20 per 1,000 in 1949 to 7 per thousand. But the birth rate reached approximately 35 per thousand. By 1980, thanks to many years of vigorous promotion of birth control, the birth rate declined to 18 per 1,000, and the death rate declined just slightly as well. The natural rate of increase declined to 12 per 1,000. However, for several years in a row, our natural rate of increase up until 1985 hovered at this level, with no particularly large pick up taking place. During the past 3 years, the birth rate has climbed again; however, it is still falling rapidly by comparison with the past.

Traditional demographic theories hold that a leap in productivity is the basic force that powers a change in the type of population reproduction. In varying degrees, the history of population change in all developed countries attests to the accuracy of this theory. China, with a very low level of productivity, and a relatively low level of industrialization, urbanization, and modernization has gone through such a change, and is thus considered a special case in the change of population reproduction type. Actually, China's population changes are fundamentally in accordance with this general law. Since the founding of the People's Republic, China's economy has developed rapidly, and a socialist industrialized system has been preliminarily established, laying the material foundation for population change. Therefore, ever since the 1950's and 1960's, China's urban areas have exhibited signs of a spontaneous decline in birth rates.

The ultimate determining role of productivity in the change of population reproduction type can be expressed only through certain production relationships. China, in which socialist production relationships are founded on a system of public ownership, provided favorable social conditions for a rapid population change, and it also created a fine social environment for a decline in the birth rate. This has been the foundation on which a change has taken place in people's old ideas about childbearing, and that has given impetus to the smooth development of planned parenthood work. It should be strongly pointed out that the successful planned parenthood work that has been done under China's socialist system has made a reality of the possibility of population change. It has guided and hastened a decline in the birth rate, thereby accelerating population change. Thus, the change in China's population type has not outpaced socioeconomic development, but rather has been its internal objective imperative.

The rapid change in population reproduction type has led to a swift decline in the speed of China's population growth, and its stabilization at a low level.

World Bank statistics show an average speed of population growth in China of 2.3 percent during the 1960's and 1970's, declining to 1.4 percent between 1970 and 1982. The latter value is vastly lower than the average for developing countries during the same period, and somewhat slower than the 1.5 percent speed of growth of developed countries such as Ireland and Australia. The gap between China's speed of growth and that of Japan, Spain, Canada, and the United States has also been narrowed, showing that China's speed of population growth has declined to a fairly low level.

Nevertheless, in order to make up for the serious consequences for population development and socioeconomic development occasioned by the loss of population control prior to the 1970's. In order to rapidly revive and invigorate the economy and in order to keep more room for future population growth, population policies must have a very long lead time, and policies to control population growth cannot change.

### 3. The Trend Toward Rapid Aging of the Population

Acknowledgement of rapid change in the population necessitates simultaneous acknowledgement that a trend toward rapid aging of the population is possible. It was for just this reason that the 13th Party Central Committee report pointed out the need to give attention to the trend toward rapid aging of the population. To acknowledge or fail to acknowledge this point will have an extremely great effect on the country's population policies and age policies.

The former use of "young structure" to explain the make up of the country's pre-1970's population was very convincing. Results of a 1964 general census showed the proportion of the country's population between 0 and 14 years of age to be 40.7 percent, while the percentage of the population 65 years old or older was only 3.6 percent. By 1982, as a result of sustained decline in the birth rate, the percentage of the population between 0 and 14 years of age had declined to 33.6 percent, while the percentage of old people had risen to 4.9 percent. In 1982, the 10 to 12 year olds were at the boundary on the population age pyramid, which showed two sharply different population types. Pyramids on which the boundary age is above this reflect a classic young type population; pyramids on which the boundary age of the population is below this reflect a shrinking type population. Simple use of "young structure" to capsuleize China's age structure is no longer precise.

Results of a 1987 one percent random sampling show the percentage of China's population at age 65 or higher to have risen to 5.5 percent from the 4.9 percent found in a 1982 survey, and the percentage of 0 to 14 year olds declined to 28.7 from 33.5 percent. The median age rose

from 22.9 years old to 24.2 years old. This shows China's population has completely broken away from the young age structure type, and the tendency toward aging of the population has become more apparent.

By comparison with other countries of the world, the aging of China's population has a marked characteristic, namely that it population began late, came on with great force, and progressed rapidly. The old age population is large in absolute terms, and the extent of aging is high. The aging of the population occurred earliest in China's urban areas, but it is in China's rural villages where the aging of the population will be most serious. China will still be a large developing country in which the population aged first. Right now, China's aging has just begun to accelerate. By the end of the century, it will speed up, and by the second decade of the next century, aging will occur at high speed. This is an unchangeable fact. All we can go is begin now to "adopt a proper response," like the 13th Party Central Committee.

In addition, there are very great regional differences in the aging of the population. The degree of aging is highest in Shanghai and in Jiangsu Province where the number of people of 65 years old and above in 1987 was respectively 8.5 and 6.8 percent of their population. However, the age structure is young in some provinces and regions, and the degree of aging of the population is low. Most such provinces and regions are concentrated in the northwestern part of the country. In 1987, Qinghai Province had the youngest population age structure in the country, the percentage of those between the ages of 0 and 14 being 35.8 percent, and those at age 65 or above being 3.4 percent. The median age was 20.4. There are also very great differences in age structure among the country's various nationalities. Generally speaking, the age structure of the minority nationalities is much younger than that of the Han nationality. The 1982 census showed that among 15 minority nationalities having a population of more than 1 million, 40 percent of the population was between 0 and 14 years of age in five, and more than 38 percent in eight. However, if one continues to capsuleize population in terms of its young age structure, one may overlook the adult population that has aged or is in process of aging, because the population that is very young is only a small portion in China after all.

### 4. Great Potential for a Shift of the Agricultural Population to Non-Agricultural Industries

The shift of agricultural population to non-agricultural population is an objective trend of social development, and it is also an important indicator in judging economic development. The 13th Party Central Committee report pointed out explicitly that the initial stage of socialism "is a stage in which an agricultural country with a predominantly agricultural population using manual labor changes gradually into a modern industrial country having a predominantly non-agricultural population."

Therefore, making the agricultural population non-agricultural is also a task of the initial stage of socialism, and it is an inevitable trend in the change of the population's regional structure, and the population's employment structure. A very great potential exists for the agricultural population to engage in non-agricultural pursuits. If this issue is not regarded as a characteristic of the population, work in this regard may be overlooked.

Ours is a country in which an agricultural population of 80 percent holds absolute dominance. Today, the problem of surplus agricultural labor is extraordinarily prominent, and the number of people that have to be shifted into nonagricultural work is very large. This results from the following: (1) Because of the age structure, the speed of growth of the rural labor force has been faster than the growth of the rural population as a whole. Population born during the peak birth period has reached working age, causing a very great increase in the amount of surplus rural labor. It has been estimated that more than 100 million rural people will reach working age between 1981 and 1985, approximately 20 million people each year reaching working age. (2) With the spread of rural responsibility systems, labor productivity rates have risen quickly. As a result, large numbers of the agricultural workforce have been retrenched from field production activities. It has been estimated that half or more of the country's rural labor force is surplus labor not needed for the development of agricultural production. The various kinds of specialized agricultural households and the scale of farming operations that the future portends will make the conflict even more pronounced.

The country's township and town enterprises, and the development of small cities and towns has opened broad vistas for a shift of the agricultural population. In 1981, just the population engaged in part time farming and part time industrial work stood at more than 40 million. Of this total, people engaged in part time farming and part time industrial work who worked in rural township enterprises, and in communications and transportation, transportation industries, businesses, and service trades numbered more than 36 million, or approximately 4 percent of the rural population nationwide, 10 percent of the total rural workforce, and more than one-third of surplus rural labor. Part timers and those who have left the land without leaving the village represent but one form of shift into nonagricultural pursuits. Genuine shift of the agricultural population into nonagricultural pursuits will require multiple channels and a widening of avenues for making the shift. This includes the development of medium and small cities, and expanding the capacity of these cities to take in rural surplus labor; the opening of urban labor markets, encouraging peasants to leave the land and to leave the villages as well, and competing as workers for urban employment, etc.

It should also be noted that we cannot heedlessly pursue a quantitative shift of agricultural personnel into nonagricultural industries. Instead, we have to make a complete analysis of relevant factors such as the nature of

development of the agricultural economy, labor productivity rates, and demands for labor by the nonagricultural sector, and the scale of urban construction, exploring a distinctive Chinese style road for shift of the agricultural population.

#### Population Quality Low

Low quality characterizes China's population from beginning to end. This feature was not highlighted in the past because of the emphasis on population quantity. It seems that to add it now as a major characteristic of the country's population is very necessary. This is because there is a limit to the population quantity issue. Once a certain goal for population quantity or a static population has been reached, there is no further need to stress quantity. However, improving population quality is a long-range and permanent task. It is of even greater urgency at the present time in realizing the four modernizations and population modernization. Improving population quality is, in demographic terms, a fundamental guarantee for effective control of population quantity, and it is also a decisive element in the ability of the rural population to shift into nonagricultural industries. The 13th Party Central Committee report pointed out the reality that one fourth of the country's population is illiterate or semilliterate, and stressed repeatedly that population quality, "good offspring, good rearing, and good education," improving the quality of workers, and "education as the foundation" are ways of focusing on the low quality of the country's population. Therefore, ranking this among the characteristics of the nation's population holds important theoretical and practical significance.

In addition, unlike other countries, China is a vast land in which there are great difference in the population from one region to another, and between one nationality and another. This may also be regarded as a characteristic for the purpose of making distinctions in policy handling. The simultaneous existence in the country of a massive population problem is also a characteristic. This characteristic requires that we plan as a whole taking all factors into consideration and act with caution on population problems, dealing with population as though it were a large piece of systems engineering. As space is limited, these problems cannot be elaborated here.

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#### PRC MEDIA ON FOREIGN ECONOMIES

**Article Recommends Learning From Japan's Experience in Using Foreign Investment**  
40060463 Beijing GUOJI MAOYI WENTI  
[INTERNATIONAL TRADE JOURNAL] in Chinese  
No 6, 30 Jun 88 pp 50-53, 8

[Article by Han Jinwang 7281 6651 2489: "Experiences and Practices in Japan's Use of Foreign Funds"]

[Text] Since the 3rd Plenum of the 11th Party Central Committee, our nation, working from a foundation of self-reliance, has implemented the policy of opening to



the outside world which has changed the original scaled-off economy into one that is opened up and has entered a new period in history where foreign capital is employed, technology is introduced, foreign trade is developed, and our nation's economic development is sped up. Over the course of more than 9 years, our nation has made huge progress in introducing foreign capital which has made up for the insufficiency of domestic construction funding, has introduced certain essential advanced technology and equipment, and has produced a powerful promotional effect on the acceleration of our nation's economic construction.

Our nation is presently in the elementary stage of socialism; our economy and technology are still fairly backward. Using foreign capital to introduce suitable advanced technology and equipment so as to reduce the economic and technological gap with developed nations is the shortest way and the only way backward nations can catch up with and surpass the advanced nations of the contemporary world. Speaking in this sense, our present scope and quality of imported foreign capital is far from able to satisfy the needs for development of the entire national economy. Also, certain problems exist due to insufficient experience. Importing foreign capital is extremely complex work; it is both intimately related to factors in many domestic areas such as politics, the economic system, and the industrial structure, and is restricted by such factors as international politics, economics and technology. Strictly speaking, it is an issue of future generations paying for what this generation borrows. Thus, how to borrow and use foreign capital not only is related to the success and failure of the use of foreign capital, but also is related to the profits of our future generations and the reputation of our nation and its people. Our nation got off to a fairly late start in the area of introducing foreign capital, so we must draw on the experiences and practices of certain nations and regions that were early birds in the use of foreign capital. In this regard, the experiences and practices of Japan are worth drawing on.

Prior to World War II, Japan had a chronic insufficiency of funds. After the war, especially during the period of economic recovery and rapid growth, the insufficiency of funds became even more critical. First and foremost, huge amounts of construction funds were needed to revive the domestic economy from the post-war ruin; second, because of an inherent shortage of resources, they had to make up an enormous international balance of payments deficit; third, pre-war debts had to be paid, and there was not way to come up with the foreign exchange required for introduction of advanced foreign technology and equipment. Under the circumstances, the only way out was to borrow international capital. Based on statistics, Japan successively imported about \$33 billion during the period of economic recovery and rapid growth alone, and after achieving their economic leap forward still continued to introduce foreign capital. By the end of the 1970's, Japan had introduced a total of more than \$90 billion. Japan's use of the international

capital had an enormous effect on its post-war economic recovery and rapid growth. The primary practices and experiences of Japan in introducing and using foreign capital are:

### **1. Pay Attention To Improving Macrocontrol Over Foreign Capital**

More isn't necessary better in using foreign capital. Blind introductions of foreign capital that goes beyond objective conditions or total reliance on loans to support "rapid growth" of the economy, can both put one heavily into debt and into the vicious circle of taking out new loans to pay off old debts. In order to improve macrocontrol over foreign capital and prevent runaway borrowing, in 1950 the Japanese government formulated and issued the "Laws Concerning Foreign Capital" known simply as the "Foreign Capital Laws." Also, it set up the "Foreign Capital Division" in Dacan Province/Prefecture and specially created the "Foreign Capital Deliberation Committee." The basic aim of the "Foreign Capital Laws" was to place strict controls on the influx of capital that could unfavorably affect Japan's economic development and international balance of payments, and to render its support and protection to the foreign capital and imported technology and equipment that would be beneficial to the development of Japan's economic construction, industry and public welfare undertakings. The "Foreign Capital Division" acted as the government's organ for controlling foreign debt and was specifically responsible for establishing and perfecting managerial regulations over foreign debt so as to guide, supervise, administer and control the nation's foreign debt. The "Foreign capital Deliberation Committee" was given the special responsibility of conducting investigation and deliberation work on the introduction and the use of foreign capital. All enterprises or departments that needed to introduce foreign capital, before they could formally introduce capital, had to provide a detailed report and the necessary data about the pertinent situations to the "Foreign Capital Deliberation Committee" and were closely scrutinized. Primary items of deliberation included whether or not the introduction of foreign capital would aid in improving Japan's international balance of payments and the development of its domestic economy; whether the scale of introduction was appropriate and whether there was sufficient ability to pay it back; whether the debt was reasonably structured and whether there was an ability to absorb and digest it, etc. If the above-mentioned conditions were not met, then the application to introduce foreign capital was turned down without exception.

### **2. Attach Importance to the Reasonable Use of Foreign Capital, Ensure That It Is Used for Key Items**

Foreign capital is introduced so that it may be used. However, the successful use of foreign capital does not depend upon the amount introduced, but rather, how it is used. This is the basic purpose in improving macrocontrol over foreign capital. In general, the scale of



post-war Japan's introduction of foreign capital was not too large. In fact, during the period of economic growth, introduced foreign capital accounted for only about 5 percent of the equipment investments of private enterprises, but it met with very good results. One reason for this was that the use was reasonable. Those industrial sectors that would have an important effect on the entire national economy were given priority in using foreign capital, and also key items were guaranteed smooth progress. During the period of economic recovery, Japan adopted the "production priority system" as a developmental strategy; the basic starting point was to develop iron and steel production so as to spur on the development of other heavy industry. However, during the course of execution, the difficulties met with first were insufficient communications and transportation as well as electricity. Consequently, the government secured loans from such official financial organizations as the World Bank and the U.S. Import-Export Bank at low 5 percent rates of interests and 15 year repayment terms. The loan funds were basically used in such industrial sectors as electricity, communications and transportation, and iron and steel. The petro-chemical industry was one burgeoning industry that began to develop at the end of the 1950's as post-war Japan developed modernized petroleum refining technology. The build-up of the petrochemical industry production system was an important sign that Japan had completed the modernization of its industrial structure. Under conditions of funding shortages and backward technology, Japan's government also took out a loan from the World Bank at a 5 percent rate of interest and a 20-year repayment period. Some private foreign capital was also absorbed, and was all basically used to support development of the petrochemical industry. In addition, the automotive industry, shipbuilding, and machinery manufacturing among other industries also received this kind of "preferential care" to different degrees during their course of formation and development. This practice of prioritized use for key elements of construction projects can both avoid unnecessary duplication of introduced foreign capital as much as possible, thereby making the flow of funds rational and effective to the greatest possible extent, and gives full play to the role of the foreign capital.

### 3. Linking Up the Introduction of Foreign Capital With the Introduction of Technology

In evaluating the ultimate result of foreign capital use, speaking macroeconomically, we must look to see whether it developed the nation's productive forces and raised the rate of labor productivity; did it increase accumulations of funds within and promote the development of economic construction; did it increase the nation's economic strength? Speaking in this sense, we can say that borrowing money is just like borrowing productive forces. Purchasing necessary advanced technology and equipment with loan funds effectively serves the nation's economic construction and raises the nation's science and technology levels. At the same time, in international technology trade, countries importing

technology can demand that the exporting country provide funding assistance when funding is insufficient. Thus, introduction of foreign capital is often linked up with the introduction of technology. Japan also introduced foreign capital in this way. Foreign capital introduced by post-war Japan was primarily supplied by the United States. The primary reason for this, aside from the fact that the financial markets in the United States are large, is that over 60 percent of the technology introduced by Japan came from the United States. However, Japan's introduction of technology and equipment had another feature, namely problems of insufficient funds were often solved by the acceptance of negotiable securities or investment credit funds, the technology exporter would be requested to treat the technology or equipment as a capital investment, enterprise management authority or creditor's rights would be obtained by entering into a joint venture with a Japanese corporate enterprise, and the Japanese government would give definite preferences in the areas of policy and taxation. In this manner, technology was introduced, and the required payment of foreign exchange was solved. Also, considering the investment interest, the exporter of the technology was often willing to go this route. Japan's primary way to introduce foreign capital was by conducting international credit transactions where negotiable securities or credit funds were accepted as investments. About 40 percent of all the foreign capital Japan introduced during the period of economic recovery and rapid growth was by this means.

Yet another reason that Japan decided to use foreign capital to introduce technology was its post-war establishment of the basic national policy of "building the country through trade." However, the difficulty in pursuing this strategy was that shipping costs were extremely high. This seriously weakened the competitiveness of Japan's export products. Undoubtedly, improvements in shipping conditions could bring lower shipping costs, but the basic way out of this was to raise the rate of productivity and the product quality through the introduction of advanced technology and equipment such as advanced production technology, advanced means of production and scientific management, to increase the competitiveness of export products. The reason why a series of Japanese heavy industry and chemical industry products such as automobiles, iron and steel, and petrochemical products could become the leaders in the international competition is because these industrial sectors all made the earliest introductions of advanced foreign technology, and the sources of funds all basically came from international loans of capital.

One of the principles under which Japan introduced technology was to serve their work in bringing forth new ideas. That is, they didn't merely introduce advanced technology as a substitute for their existing technology, but rather by using it and digesting it, they improved and transformed it to blaze trails in creating their own new technology. For example, the kinescope production technology of Sony Corporation was first introduced from

the United States, but working from the introduced foundation, they successively transformed and improved on it 16 times, and developed the tri-colored single-gun kinescope thereby enabling the Sony color television to capture the entire international sales market. Another principle was to pay attention to the simultaneous introduction of software technology and hardware technology which they did by adopting the introduction strategy of "introduce both software and hardware, with emphasis on the software." A third principle was to simultaneously introduce scientific management together with technology and equipment. A fourth principle was to pay full attention to domestic auxiliary capabilities when introducing technology.

#### **4. Diversify the Methods of Introducing Foreign Capital**

In its introduction of foreign capital, Japan paid more attention to the mix of loans. The flow of funds came from both official loans from foreign governments and international financial organizations, and business loans including the issuing of international bonds. Also, they fully considered the ability to repay the debts, the interest rate on the loan, and currency structure. In the initial stage after the war, the United States, seeking to bolster Japan's economic reconstruction, successively provided nearly US\$1.7 billion under such names as "The Administration Relief Plan for the Occupied Areas" and "The Economic Revival Fund for the Occupied Area." In addition, Japan was given \$500 million in loans. This was the first introduction of foreign capital into post-war Japan. Other foreign capital was introduced primarily through such means as direct loans, accepting negotiable security or credit fund investments, and the issuing of international bonds.

Direct loans formally began in 1951. Before this, due to Japan's awful image abroad resulting from its pre-war acts, international trust in Japan was very low. Also, pre-war loans had not been repaid, so securing new loans was extremely difficult. In 1950, Japan repaid all of its old debts and began to secure new loans. By the end of the 1950's, direct loans to Japan were supplied primarily by the World Bank and American financial organizations. Not until the 1960's did Western European nations begin providing loans to the Japanese. In selecting loans, Japan rigorously controlled its short term loans which can easily get out of control and create a vicious circle of borrowing. Japan generally selected loans with 15-20 year repayment terms, and with low interest rates, averaging 5.2 percent. Prior to 1965, because the government strictly controlled the accepting of negotiable securities as investment, direct loans were the primary means of introducing foreign capital, accounting for about 70 percent of all loans for that period.

Acceptance of negotiable securities or credit funds as investments. Though accepting negotiable securities as investments had a great effect in Japan's introduction of proprietary technology and equipment, yet, prior to

1965, the government put strict limits on it so as to protect the rights and interests of national enterprises. Similar means of investment that enabled one to act as a local legal entity and directly participate in enterprise management accounted for only 6.5 percent of investments. The remainder were all credit fund investments. And, in order to protect national enterprises, the government also stipulated the proportion that negotiable security investments should account for in different industrial sectors. Not until after 1966 did the government gradually relax its restrictions.

Issuance of international bonds, corporate bonds, and foreign exchange bonds. Foreign capital introduced by issuing government bonds and corporate bonds accounted for approximately 30 percent of the total amount of foreign capital and was one important way that Japan raised foreign capital. The bonds were generally for 3-5 years. Because of their high rates of interest, they possessed a definite attractiveness, and easily raised relatively stable foreign capital. Foreign exchange bonds began to be issued in 1958; there were three kinds—national foreign exchange bonds, government secured bonds, and private foreign exchange bonds. Total amounts issued accounted for approximately 10 percent of the total amount of foreign capital.

#### **5. Link Up the Introduction of Foreign Capital With the Development of Foreign Trade**

World progress in science and technology has brought on enormous development in economic and production internationalization. All nations have been drawn into the international division of labor, and all nations must carry out foreign trade activities. The flow of international funds is a medium of absolute necessity in world economic movement; all international economic activities must be completed through the flow of funds. Thus, import and export of capital as well as import and export trade in commodities are important pillars of foreign economic activities. Under the conditions of an insufficiency of domestic funds, import and export trade in commodities can bring opportunities for import of capital and increased accumulations of domestic funds; under conditions where "capital is in excess," it can promote the development of capital exports. Import and export of capital is also beneficial in spurring on the development of import and export trade in commodities. The two complement each other and help each other move forward.

Special features of post-war Japan's foreign trade include the fact that in the import of commodities, elementary products accounted for about 70 percent of the total amount, and their export commodities were almost all finished industrial goods, among which heavy and chemical industry products made up about 85 percent of the finished export products. This kind of export product mix was formed on the foundation of foreign capital introduction. In the initial period after the war, Japan's export products were primarily textiles, and by the

beginning of the 1960's, light industry products were still the primary export commodities. In the 1950's and 1960's, by renovating its equipment and introducing new technology, Japan successfully carried out a science and technology revolution. Around the middle of the 1960's, certain important industrial sectors successively met or surpassed the quantity and quality levels of similar American products, gradually forming the present export mix. Japan's use of foreign capital to promote the development of its export trade is concretely reflected in two areas. First, introduction of foreign capital heightened the material and technological foundations of the national economy, and strengthen export capabilities. Second, a fair portion of introduction items were directly employed in developing export products, thereby heightening the productivity of export products, strengthening competitiveness, increasing the ability of export products to generate foreign exchange, and also providing conditions for repayment of foreign debts. Actually, in international economic activity, the inflow and outflow of capital is often conducted through trading companies which both handle imports and exports of capital and imports and exports of commodities. This was also a common practice of Japanese trading companies and agencies.

#### **6. Lessons From Japan's Introduction of Foreign Capital**

Generally speaking, Japan's macrocontrol over introduction of foreign capital was fairly successful. However, it is very difficult to avoid losing control of the introductions of foreign capital due to innate capitalist corruption. Moreover, excessive reliance on introductions also brings many unfavorable factors to the development of the domestic economy and technology.

One unfavorable factor is the large wastage of foreign exchange created by numerous introduction channels and, to a certain extent, anarchic conditions. After the second half of 1955, Japan showed a feverish rise in private investments in equipment, but this kind of private investment in equipment was carried out under the backdrop of advanced foreign technology and equipment introductions. The various enterprises battled each other to make introductions, thinking that introducing technology and equipment was the way to gain the upper hand in competition with the opposition. In particular, after the government implemented "liberalization of technology introduction" in principle in 1968, the situation of duplication in introductions became even more serious. In the electronics industrial sectors, five enterprises even introduced the same kind of technology at the same time which created a huge waste of foreign exchange. The proportion of industries introducing technology was actually over 75 percent of the entire industrial field.

Second, over-reliance on technology introductions ignored basic scientific research and weakened the ability to develop technology independently. Post-war

Japan's science and technology development came about through the introduction of technology; Japan itself made almost no independent inventions or creations. In a sense, they adopted a "parasitism" strategy in science and technology. Also, imported technology was even displacing domestic technology. The results of Japanese technological research were shelved and money was borrowed to introduce the very same technology. To a certain extent, this hindered Japan's own growth in technological research and development.

Third, lopsided economic development and economic monopolization. Prior to World War II, Japan was basically an agricultural country, with farmers making up about 60 percent of the population. Following changes in post-war economic structures, and in particular the rapid development of burgeoning industries, large amounts of farming land were requisitioned, cultivated area became increasingly smaller, and the farming population, which accounted for 20.1 percent of the total population in 1955, was reduced to 10.6 percent by 1977. The serious decline in agriculture changed Japan into one of world's largest importers of agricultural products. The government had no choice but to adopt certain measures to support the development of agriculture. Placing the "responsibility" for creating lopsided economic development fully on the shoulders of foreign capital introduction is obviously inappropriate, yet, although excessive concentrations of foreign capital used in developing the burgeoning industries brought about the establishment of the modernized industrial system it also led to lopsided development of the economy. This was both a problem with the economic development strategy, and a mistake in the use and macrocontrol of foreign capital. In addition, those burgeoning industrial sectors that relied on foreign capital for their establishment created conditions to attract new foreign capital and produce large, new enterprises, and quickly formed huge monopolistic groups in the heavy and chemical industry sectors and the trade sectors through later dissolving and gobbling up of smaller enterprises. They linked up with the financial world and formed new monopolistic groups, deepening Japan's economic monopolization.

At present, western capitalist nations generally show slow economic growth and have great restrictions on the flow of funds, so they are starting to look for new investment channels in developing nations. We should make full use of this opportunity to actively attract them. In order to effectively introduce and make use of foreign capital, we must, above all, strengthen our macrocontrol over foreign capital use, establish an authoritative administrative organ to unify examination and approval, management and coordination of the nation's foreign debts, and formulate strategic programs for medium and long term loans as well as loan plans. First, while determining the overall scope of foreign capital, we must both consider actual domestic needs and give full attention to the ability to repay the debts. Second, we must use foreign capital on many different levels and

channels and, while making full use of direct foreign investment, we should make use of the various kinds of foreign loans in an active, goal-directed, planned fashion. Third, using foreign capital to introduce advanced foreign technology and equipment is one kind of effective utilization of foreign capital. However, while introducing advanced foreign technology, we must both take note of our domestic auxiliary capabilities as well as the digestion and absorption of introduced foreign technology, and prevent unnecessary duplications or blindness in introductions. Fourth, within scopes permitted by laws and policies, we must simplify middle management levels with regard to foreign capital enterprises and reduce administrative interference. At the same time, we should implement many different levels of favorable measures for direct foreign investment in the different businesses based on the different investment regions in our country to encourage and attract foreign investments in sectors involving high-grade, precise, state of the art technology, in businesses and in our nation's remote areas. Fifth, we must strengthen our information work and employee training to raise the quality of our workers and managers in foreign capital enterprises. Information and talent determine the fate of an enterprise and its development. Strengthening our work in this area is one important way we can improve our investment environment; it will enable us to form a batch of foreign capital enterprises with international competitiveness and attraction as soon as possible and will be beneficial toward the rapid development of our foreign capital introduction work.

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- 13072/12232

## AGRICULTURE

### Shanxi Autumn Grain Area

40060513b Taiyuan SHANXI NONGMIN in Chinese  
19 Jul 88 p 1

[Text] According to a survey of 2,100 rural households in 35 counties, the area sown to autumn grain in Shanxi Province was 17,130.4 mu, a decrease of 604 mu from 1987. The corn area declined 12.7 percent; the sorghum

area declined 5.6 percent; and the millet, soybean, and rice areas increased 0.7 percent, 16.5 percent, and 1.3 percent respectively over 1987.

### An Investigation on the Babesiosis of Water Buffalo in Fujian

40110026 Fuzhou FUJIAN NONGXUEYUAN  
XUEBAO [JOURNAL OF FUJIAN AGRICULTURAL  
COLLEGE] in Chinese No 1, 18 Mar 88 p 73

[Article by Chen Tianduo 7115 1131 6995 et al., of the Department of Animal Husbandry and Veterinary Science, FAC and Huang Xing 7806 5281 et al., of the Association Veterinary of Chong'an County]

[Abstract] During 1981-1986, an investigation was conducted on babesiosis of water buffalo in the Chong'an County, Fujian, China. Fifty-four sick buffaloes were found in a cattle population of 374. The cause of the disease is *Babesia* sp. (sp. to be identified). The pathogen appeared in various shapes, ranging from the single or paired piriform, to the ellipse, annular, round and amoeboid shapes. The respective percentages appeared as 37.21 percent, 35.03 percent, 16.73 percent, 1.34 percent, 7.67 percent, and 2.01 percent, as surveyed by us. The disease usually occurred in the spring and summer season every year. However, prevalence appeared more often in the months from April to May. The disease attacked only the water buffaloes but not the other cattle. The symptoms of the disease were characterized by fever (39—41.6° [SB] centigrade), haemoglobinuria, anemia (a drop to 2147.2 plus or minus 810.2 thousand erythrocytes/mm<sup>3</sup>) and icterus. Tick (*Rhipicephalus haemaphysaloides naemaphysaloides* Supino) was found to be the vector. After infection we found many motile sporozoite in the salivary tubes of the animal that could be easily discerned with a light microscope.

### Types and Distribution of Peanut Virus Diseases in China and Detection of the Viruses by Serology

40110003 Wuhan ZHONGGUO YOULIAO [OIL  
CROPS OF CHINA] in English  
No 2, 20 Jun 88 pp 61-62

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[Abstract] On the basis of a survey made from 1984 to 1987, peanut virus diseases were found to be prevalent mainly in northern China including Shandong, Liaoning, Hebei, Henan, Jiaogsu, Anhui Provinces and Beijing. Peanut mild mottle caused by peanut mild mottle virus (PMMV) was predominant throughout all areas. Peanut yellow mosaic and common mosaic caused by cucumber mosaic virus CA strain (CMV-CA) and peanut stunt virus Mi strain (PSV-Mi) respectively occurred in mixture with peanut mild mottle in some locations, causing more damage to peanut production. Peanut mild mottle disease occurred seldom in southern China including Guangdong, Guangxi, Jianxi,

Hunan and Sichuan Provinces. Peanut bud necrosis caused by tomato spotted wilt virus (TSWV) was only found in Guangdong and Guangxi Provinces. Of 1156 diseased samples tested by serology PMMV, CMV, PSV and TSWV

accounted for 82.2 percent, 29.7 percent, 29.4 percent and 2.7 percent of the tested sample's total. Double infection caused by PMMV and CMV, or PMMV and PSV accounted for 21.3 percent and 25.6 percent, respectively.

**Yao Chia-wen on Taiwan's Legal Status**  
40050400 Hong Kong *CHIUSHIH NIENTAI* [THE  
*NINETIES*] in Chinese No 222, 1 Jul 88 pp 30-31

[Interview with Yau Chia-wen 1202 0857 2429 on 20 May 88 by Tang Ming-shih 0781 2494 2457: "The Chairman of the Democratic Progressive Party Discusses Taiwan's Status"; location of interview not specified]

[Text] Editor's note: On 16 and 17 April, the Democratic Progressive Party [DPP] held a provisional representatives' congress and passed resolutions on the future of Taiwan, of which some had a strong "independence" character and evoked much controversy (see article "The 'Taiwan Independence' Tendency of the DPP" in the May issue of this magazine). In this connection, this writer interviewed the chairman of the DPP, Yao Chia-wen [1202 0857 2429], to talk about his attitude. The interview took place on 20 May.

Question: Many believe that the resolutions which were passed this time, although overall rather moderate in language, were in content more radical than the original proposal of "the people are free to propose independence," having raised the matter from the discussion level to the level of a proposal. What is your opinion?

Answer: Essentially, you are right. There are two reasons: One is that the death of Chiang Ching-kuo has raised interest, at home and abroad, in the question of sovereignty over Taiwan. The other is that the proponents of the original proposal found it unsatisfactory, and that the opponents also thought it not sufficiently clear, too simplified, and unable to give a clear indication of the people's concern for such questions as sovereignty, unification, and independence. That is why the original draft has been amended and made into the text of the resolution.

Question: Is the DPP advocating the doctrine of the undecided status of Taiwan? Because many people criticize that this viewpoint does not have a leg to stand on.

Answer: We have never advocated that at all. The doctrine of the undecided status of Taiwan was first set forth by President Truman. At that time the San Francisco peace treaty had not yet been signed. When Truman proposed the doctrine, the Japanese, since they were defeated, intended to hand over Taiwan to the Nationalist Government, but what was the specific significance of this handover? Later, it was not clearly defined in the treaty, which only says: "Japan renounces all rights, titles, and claims to Taiwan and the Pescadores," but does not say to whom they should be returned. We are not at all advocating the doctrine of the undecided nature of Taiwan's status. On the contrary, it is our belief that through these two treaties, Taiwan's sovereignty has actually been returned to the people of Taiwan.

Question: Although the treaty only speaks of renunciation and does not mention who shall have jurisdiction, the Nationalist Government in 1941 proclaimed abrogation of the Treaty of Shimonoseki. Has Taiwan's sovereignty not already thereby reverted to China?

Answer: That is not correct, the treaty cannot be revoked. If that were possible, the compensation of 100 million taels of silver stipulated in the treaty would also have to be returned. There are two categories of treaties: one kind is of continuous duration, like renting a house for 500 yuan a month, when on discontinuation no further payments are required. Other treaties are like the Treaty of Shimonoseki. Once they are concluded, they have also already been fulfilled. At that time already, China handed Japan the compensation and Taiwan, and the treaty was thus fulfilled. How can it possibly be later abrogated one-sidedly? If it could be abrogated or if the abrogation would be effective, Japan would have had to return the money to China which it got out of the Treaty of Shimonoseki, but Japan in fact never did.

Question: Saying it in somewhat clearer terms, since the Treaty of Shimonoseki has been fulfilled, Taiwan belonged to Japan, and if Japan one day gives it up, it means that sovereignty leaves Japan, but it does not say to whom sovereignty goes.

Answer: That is correct. Now, even the Chinese communists do not use this theory of the abrogation of the Treaty of Shimonoseki, which is untenable under international law.

Question: There are "four ifs" in the resolution, one says, "if the Chinese communists effect Taiwan's unification with the mainland, the DPP will propose independence." The question is, if the Chinese communists really effect the unification of Taiwan with the mainland, how could the DPP then propose independence?

Answer: During the Japanese occupation of Taiwan, there were anti-Japanese activities, that was also the case under the Ching dynasty. Although these were underground movements, the party or the organization itself always existed. But returning to an earlier point, the "four ifs" in the text were indeed formulated somewhat carelessly. Originally someone had suggested: "If the Chinese communist would intend to liberate Taiwan by use of military force, the DPP would propose the independence of Taiwan." However, there have also been others who said, if the Kuomintang gets together with the Chinese communists, and it will use other forms of unifying Taiwan with the mainland, for instance, use the method of a surrender or summons to surrender, would we then not come out with our idea? For this reason we have retained the original proposal.

Question: There is a similar question in another section: "If the Kuomintang does not implement a true democratic constitution, the DPP would propose independence for Taiwan." Does that imply that the DPP at

present does not yet propose independence for Taiwan, because the Kuomintang is implementing a democratic constitution? And how are we to distinguish whether a democratic constitution is being implemented?

Answer: You should not make this inverse assumption. We are now still a party with independence in our decisions. We shall again decide these questions when the time shall come and when the conditions will have materialized.

Question: You just said that through the San Francisco peace treaty and the Sino-Japanese peace treaty Taiwan's sovereignty was returned to the Taiwan people, i.e., that Taiwan's status has been determined. From this point of view, do you believe that there is fundamentally no need for a further declaration of Taiwan's independence, and that the Chinese communists have no way to use this pretext for military action against Taiwan? If that is so, must we not say that the DPP will certainly never proclaim Taiwan's independence?

Answer: We may proclaim "maintenance" of Taiwan's independence. We will not "change" the present situation, but shall "restate maintaining" independence. If the Chinese communists will under these circumstances attack Taiwan, they would have to change their pretext to "Taiwan refuses to be swallowed up," which sounds rather ridiculous.

Question: Do you agree that now that the DPP is taking a more active attitude in the Taiwan question has

something to do with the Kuomintang's policy of allowing visits to the mainland for family reunions and the many more contacts between the two sides of the Taiwan Strait giving a section of the DPP followers a sense of crisis?

Answer: No, that is not the case, our reactions are not directed against allowing visits for family reunions. Allowing family reunions, on the contrary, is helpful to keep both parties apart. Ours is a reaction to the following three situations: One, the vigorous growth of the idea and public opinion on independence for Taiwan; two, the Kuomintang's continued procrastination in the matter of overall reelections; and three, the repeated declaration of the Chinese communists that they do not rule out the use of military force. The DPP in principle approves of the opening up for family reunions, because it relaxes the strained relations between the two sides. Wait till time will be ripe, relations will have become more relaxed, it will then be quite possible that the DPP will not rule out the possibility of unification.

Question: If the majority at that time will advocate independence, don't you feel that this will essentially not be a question of subjective will, but a situation in which one must take the international realities into consideration, that is, the factor of Communist China?

Answer: If at that time international conditions would not permit it, the ruling party must take this into consideration. They must respect and follow the will of the people. If the majority will approve, they must fight for it. Even if they want to give up, their action should only be taken if they will have sufficient reasons to persuade the people.

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